From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- **NEWS FROM EUROPE:**
  - **Krone Sets Sales Record**
  - **Claas Sales Up By 8.1%**
  - **New IVT Transmission**

Argo Closing Doncaster McCormick Tractor Plant by Mid-2007

McCormick Tractors International, Ltd., a unit of Argo, S.p.A, the Italian manufacturer of McCormick and Landini tractors, announced on January 4 that it will shut down its operations in Doncaster, England, in 2007. Production of McCormick equipment will be shifted to other yet-to-be-named facilities in Italy. Tractors have been manufactured at the English facility since the 1930s.

In June 2006, Argo announced that it had sold the land on which the Doncaster plant was located, but that it would retain the production facilities on a long-term, leaseback arrangement. At the time, Argo said that the deal did not hail an end to tractor production at the site and the company had no plans to shift manufacturing. The agreement raised $28 million to help the firm reduce the amount of the loan Argo procured when it purchased McCormick in 2001. It also said that the sale would help to avoid further job reductions.

The shutdown will result in a loss of nearly 320 of the 350 jobs at the site, which will continue to serve as a McCormick sales and parts distribution office. Argo is negotiating with unions on how it will close down tractor assembly operations by mid-year. McCormick produces its XMC, MC Power 6, MTX, XTX and ZTX tractor models here.

Industry observers say that Argo is strapped for cash. "When you have to sell your manufacturing facility, then turn around and pay rent on it to free up capital, that should tell you what condition their checkbook is in," says one industry insider who asked not to be identified.

One McCormick dealer expressed frustration with the manufacturer saying it took 2.5 months to get parts to repair a brand new 200-hp tractor he sold last year.

In an interview with *AEI* on January 8, McCormick USA president Simeone Morra says that the restructured operations will have no impact on U.S. dealers and customers, and is aimed at keeping its products competitive

"Our objective is to see that the McCormick name continues to grow and perform in the global marketplace," says Morra. "In order to stay

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Slowing Worldwide Markets Will Challenge AGCO in '07

With 70% of farm machinery sales coming from markets outside of North America, AGCO Corp. finds itself more vulnerable to regional pressures than the other major ag equipment makers. As a result, 2007 could present some particularly significant challenges in the company's quest to become the world's second-largest farm machinery builder.

In South America, which accounted for 12% of its sales in 2005, AGCO is projecting industry equipment sales to decline 5-10% as farmers face debt repayments following a 2-year moratorium, according to Bank of America analyst Seth Weber. Farmer income levels in Brazil were projected to finish flat in 2006 reflecting the strong Real and drought conditions, though profits are expected to return in 2007.

"On balance, sugar farmers have fared better than corn and soybean farmers," says Weber. "Tractor sales in Brazil — AGCO has roughly 60% market share — have recovered in recent months, though sale of combines remain low. AGCO's announced initiatives in South America include lean manufacturing and cost/inventory reductions."

In Europe, AGCO expects flat sales in 2007, with strength in Eastern Europe offsetting softer turnover in Western Europe. AGCO sees Eastern Europe, and Russia in particular, as a significant growth opportunity, given aging

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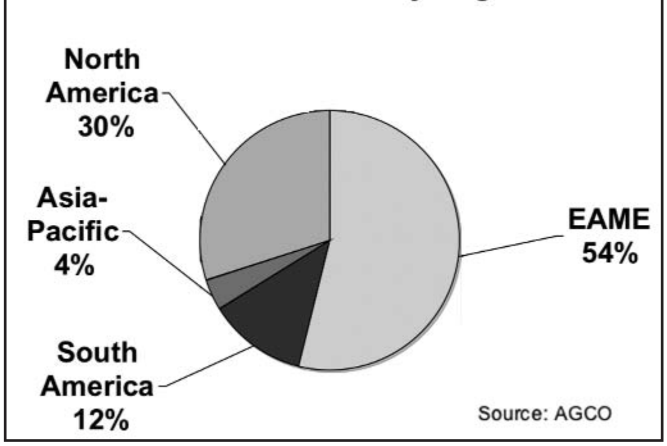
2005 AGCO Sales by Region



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competitive, we have to continually review the way we structure our business and, most importantly, control our operating costs by improving efficiencies where possible."

Earlier this year, McCormick International successfully completed the restructuring of its St. Dizier facility in France. This facility is responsible for the design, development, manufacturing and assembly of transmissions for McCormick products.

"We are convinced that the restructure process will significantly improve manufacturing efficiencies and strengthen our ability to operate successfully in the agricultural market, positioning the company for a stronger future," says Morra.

Argo's sales totaled more than $1 billion in 2005. AEI

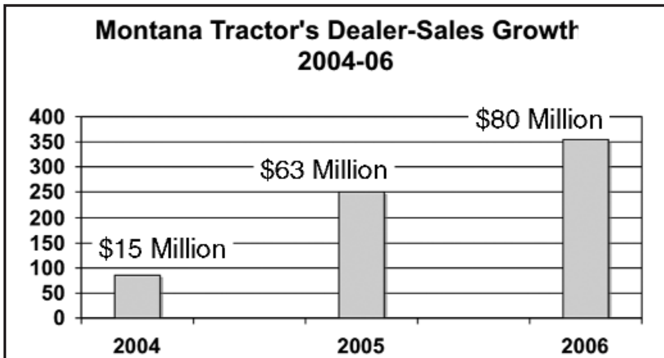
Montana Tractor Sheds Light on Supply Picture at Dealer Meeting

Ag Equipment Intelligence attended Montana Tractor's Dealer Convention in Springdale, Ark., on January 4-5. The second-annual convention featured a private media session that included Rodney Miller, CEO, Bryan Hunt (part-owner), and two representatives from South Korean tractor manufacturer LS (part of the LG Group). Also present was Ameriquip, the primary loader supplier for Montana (handling 96% of its 3,500 loaders this year), which is now the Kiel, Wis.-based manufacturer's second-largest client.

South Korea's second-largest conglomerate, LG is a $100 billion group that consists of three divisions: electronics and chemicals (LG), energy and distribution (GS) and industrial electrical/electronics and materials (LS).

The tractor machinery division (with factories in Gunpo and Jeonju) is part of LS. It does $200 million in 15 nations and exports 70% of its product to the U.S. About 8,000 of the firm's 150,000 employees are housed within the LS Cable Division.

LS entered the U.S. market through an agreement with Long Agribusiness (FarmTrac) in 1998, and continues to work with FarmTrac as a sub-line supplier today. "LS has become a very good supplier of tractors due to its common experience in auto manufacturing," said Ju-Chan Kim, LS Tractor, citing the continual improvement practices employed by Daewoo, Hyundai and Kia.



In the 3 years since its founding, Montana Tractors has grown its retail distribution from 85 to 355 sites. According to Montana officials, 65% of the small tractor market is located between Houston and Baltimore. Bars represent the number of dealers and the numbers above the the bars indicate how Montrana Tractor's sales have grown in the past 3 years.

LS supplies Montana with tractors in the 27-57-hp range. While LS is Montana's primary supplier in this range, Montana also sources tractors from UTB (Romania) and TYM (South Korea). According to Kim, LS has plans in place to manufacture higher horsepower tractors in the 72-90 hp range as well as subcompacts, for which a new facility in China will become operational in 2008. By 2010, the firm intends to double its unit production to the U.S., from 10,000 to 20,000 units.

At Montana's Arkansas facility, only final assembly, detailing and preventive maintenance steps are required, as most tractors arrive in a semi-finished state. Other suppliers cited during the event included Koyker, Titan Tire, Nardi and Bradco.

In other news, Montana reported that its "retail sales grew 48% in 2006, when the industry itself was in a freefall," says Miller. Hunt talked a great deal about how the primary aim for 2007 would not call for continued significant jumps in dealer numbers (dealers grew by 42% in 2006), but rather plans to focus on helping existing dealers sell more aggressively in 2007. According to Montana staff, 80 dealers sold 20 or more tractors in 2006.

The convention introduced dealers to the new R series tractors (the first designed with input from the Montana team), discussed solutions to the initial growing pains that the fledgling tractor company experienced and revealed new programs for 2007, which included the strongest aged inventory program that Miller has seen in his career.

Much emphasis was given to forthcoming marketing programs that Michael Turley, Route 3 Marketing, is developing to target the rural lifestyle customer. Turley, a longtime veteran of the Osborn & Barr marketing firm, joined Montana after the marketing firm had to back off the account after fellow client John Deere threw a competitive red flag on the firm handling both businesses.

With the unexpected death of co-founder J.B. Hunt in November, questions have been raised to *AEI* about whether the ownership will remain committed or look to divest the company. Bryan Hunt addressed this saying that the Hunt family and the other owners (Dan Downing and Charles Goforth) remain committed to the 5-year-plan developed in 2004, which includes being a top-5 tractor manufacturer in its horsepower class by 2010. AEI

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AGCO SEES POTENTIAL IN BUILDING FORAGE HARVESTERS

In the December 12 issue of the English publication *Farmers Weekly*, AGCO's chairman and CEO Martin Richenhagen, says the farm equipment maker is looking at building forage harvesters.

"There may be some potential for AGCO Corp. getting involved in the forage harvester business in the future and we are investigating growing markets such as Eastern Europe and China," said Richenhagen. "This new market opportunity supports the changing environment of our business with regard to renewable energies and the future of agriculture.

"If AGCO does invest in this market," he said, "we would see it as a further fulfillment of a full product line offering for our customers. The forager market isn't very large, but we anticipate it to increase more than 30% during the next 5-10 years."

AGCO CORP. WORLDWIDE SALES ($ IN MILLIONS)

	2005	2006E	2007E	2008E
Segment Sales				
North America	1,607.8	1,293.1	1,296.1	1,399.8
South America	648.5	628.1	650.0	715.0
EAME	2,988.7	3,240.6	3,293.2	3,540.2
Asia/Pacific	204.7	160.8	161.0	177.1
TOTAL	**5,449.7**	**5,322.6**	**5,400.3**	**5,832.1**
Segment Operating Income				
North America	17.1	(50.1)	(21.0)	28.0
South America	37.8	41.0	42.1	53.6
EAME	242.5	278.3	273.6	308.0
Asia/Pacific	35.0	20.2	20.7	26.6
TOTAL	**332.4**	**289.4**	**315.4**	**416.2**

fleets and the growing need for technology. The company estimates its tractor share above 20% in most markets, while product opportunities remain in the harvesting and sprayer markets. Operating strategies include simplifying manufacturing processes and more of a build to order system.

Asia-Pacific has faced challenges recently due to drought in Australia and reduced subsidies in Japan, though the market should stabilize in 2007. AGCO estimates market share in this region in the low teens. AEI

AGCO CORP. WORLDWIDE SALES GROWTH & OPERATING MARGINS

	1Q06	2Q06	3Q06	4Q06E	1Q07E	2Q07E	3Q07E	4Q07E	2005	2006E	2007E	2008E
Sales Growth												
North America	-18.0%	-26.0%	-26.0%	-8.0%	-6.0%	-3.0%	4.0%	6.0%	14.0%	-20.0%	0.0%	8.0%
South America	-7.0%	-13.0%	1.0%	10.0%	4.0%	5.0%	3.0%	2.0%	-19.0%	-3.0%	3.0%	10.0%
EAME	1.0%	4.0%	8.0%	20.0%	0.0%	5.0%	5.0%	-3.0%	4.0%	8.0%	2.0%	8.0%
Asia/Pacific	-28.0%	-25.0%	-24.0%	-10.0%	-5.0%	0.0%	2.0%	2.0%	7.0%	-21.0%	0.0%	10.0%
TOTAL	**-7.0%**	**-8.0%**	**-4.0%**	**10.0%**	**-1.0%**	**3.0%**	**4.0%**	**0.0%**	**3.0%**	**-2.0%**	**1.5%**	**8.0%**
Operating Margin												
North America	-1.7%	0.7%	-7.4%	-7.5%	-4.0%	-1.5%	0.0%	-1.0%	1.1%	-3.9%	-1.6%	2.0%
South America	7.9%	5.5%	7.2%	5.5%	8.0%	5.5%	7.5%	5.0%	5.8%	6.5%	6.5%	7.5%
EAME	7.6%	9.5%	7.2%	9.5%	7.3%	9.5%	7.5%	8.5%	8.1%	8.6%	8.3%	8.7%
Asia/Pacific	11.3%	10.1%	13.8%	14.0%	12.0%	10.5%	4.0%	14.0%	17.1%	12.5%	12.8%	15.0%
TOTAL	**5.2%**	**7.0%**	**4.2%**	**5.1%**	**4.5%**	**6.6%**	**6.1%**	**5.9%**	**6.1%**	**5.4%**	**5.8%**	**7.1%**

Source: Company documents and Banc of America Securities LLC estimates

FARM MACHINERY TICKER (AS OF 1/12/2007)

Mfr.	Symbol	1/12/07 Price	12/13/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$31.78	$31.20	$35.57	$16.74	NA	2.61 M	2.90 B
Alamo	ALG	$24.61	$23.62	$26.00	$19.25	23.30	5,903	240.22 M
Art's Way	ARTW	$7.10	$6.73	$9.19	$4.87	16.90	3,220	14.01 M
Caterpillar	CAT	$59.74	$61.49	$82.03	$58.82	11.80	7.21 M	38.86 B
CNH	CNH	$28.17	$28.08	$30.60	$18.08	25.11	265,765	6.65 B
Deere	DE	$99.33	$94.70	$101.40	$66.90	13.83	2.52 M	22.60 B
Kubota	KUB	$46.10	$44.74	$60.60	$38.51	16.35	18,890	11.94 B

Italy's Telehandler Makers Set to Do Battle

Italy's burgeoning telescopic handler manufacturers are jockeying for position in an increasingly crowded market.

In recent months, Faresin has dissolved its manufacturing and distribution joint venture with French partner Haulotte; Dieci has built a $25 million factory with a capacity of 2,500 telehandlers a year; and Merlo is chasing a fifth of the European market for agricultural, construction and industrial handlers and a sales turnover up from the equivalent of $361 million last year to more than $387 million in 2006.

According to Faresin, "diverse strategic and marketing choices" led to the dissolution of its joint venture with construction equipment firm Haulotte after 3 years of active collaboration in the production and distribution of telescopic handlers.

Faresin Group has acquired full ownership of the operation and moved its headquarters and production base from Thiene in France to Breganze in Italy where the company already makes tractor-powered and self-propelled cattle feeders.

Faresin operates seven factories and reports annual sales turnover equivalent to $77.5 million; some $41 million is generated by telehandler and agricultural machinery sales in roughly equal proportions.

The Faresin Agri Division makes feeder-mixers for cattle and distributes them mainly in Europe through importers and a growing number of the company's own export market branches.

Dieci's new factory houses offices, storage and production lines, with improved efficiencies enabling output to be increased from the present 1,000 machines a year — 80% of which are telehandlers — without adding to staff, according to Ciro Correggi, vice president.

He identifies the U.K., Australia, Denmark, France, Spain and Portugal as the company's main export markets, with plans to enter the U.S. market on the horizon.

Merlo, which reported turnover equivalent to $361 million last year, has set ambitious growth targets as its conventional and multi-purpose telehandlers continue to attract new buyers.

According to recent reports, the company claims market leadership in a number of European countries and is said to be on target to sell 650 telehandlers to farmers in Italy this year, accounting for half the market. The innovative MultiFarmer will account for some 20%. Unlike handlers that have rear three-point linkage and PTO added as an after-thought, the MultiFarmer is designed from the outset as a multi-purpose machine that operates as a handler and a light-duty tractor. AEI

Claas Sales Improve by 8.1% During 2005-06

Improved performance from all three of its business sectors led to an 8.1% increase in sales for the Claas Group during its 2005-06 fiscal year, reaching a record $3 billion at current exchange rates. Profitability soared more than 50% compared to the prior year with pre-tax earnings climbing from $113 million to $172 million.

Sales of harvest machinery and agricultural tractors matched the group trend with an 8.3% increase in sales to 2.16 billion euros ($2.84 billion) but sales of driveline and other components increased by almost 15% to 33.5 million euros ($44 million).

Claas, headquartered in Harsewinkel, Germany, saw a modest 1.6% increase in sales in Western Europe, the company's most important agricultural engineering market. The firm also experienced a shortfall in Central Europe compared with last year, while sales in Eastern Europe increased during the period.

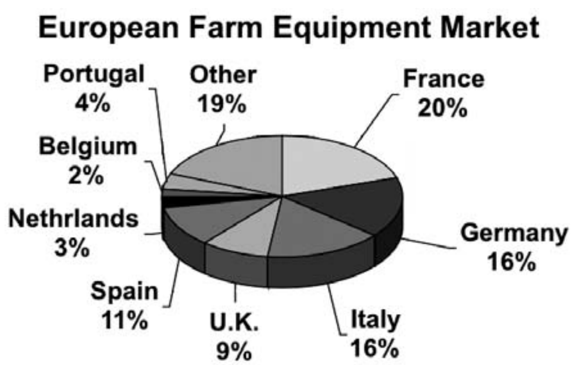
Strong growth of more than 25% was recorded in the U.S., with higher forage harvester sales in particular contributing to the improved performance.

The German company's outlook for 2007 predicts stable markets in both Europe and North America, with likely firming of demand in Western Europe offset to some extent by the impact of rising input costs for farmers in the developing farm machinery markets of Central Europe.

The markets in Eastern Europe are likely to continue on an upward trend in 2007, says Claas, and it expects the number of western products being manufactured there to continue rising. However, the firm has concerns about increasing market protectionism in the region. AEI

European Ag Machinery Market Valued at $14.5 Billion

With its farm equipment market valued at nearly $15 billion, Europe accounts for 40% of the global market. France, with a 25% market share, leads Europe as the single biggest market for ag machinery in the EU. Imports of foreign farm equipment reached $2.1 billion in 2005 and exceed French domestic production, accounting for 58% of the total market. The U.S. is one of France's top suppliers with a 12% share of the import market. AEI



Krone Records Highest Sales Ever; Up 38% in NA

Bernard Krone, Germany's fast-growing farm machinery manufacturer, recorded its best sales figures in the company's 100th year.

At $346 million, revenues from agricultural machinery sales in the fiscal year ended September 2006 were up 19.5% compared with the previous year, while the machinery retailing business in Germany recorded a 5% increase in sales at $90 million. Together, the two operations account for 34% of group sales; Krone's other main activity is the manufacture of over-the-road semi-trailers.

The figures for Krone's agricultural machinery manufacturing operations at Spelle, Germany, seem to vindicate the decision to ignore the product diversification policies of its competitors and to stop producing tillage equipment to focus on grass and forage machinery.

Sales director Wilhelm Voss has a positive outlook for the current year, with sales revenues of $373 million forecast, predicting more buoyant markets in France and the U.K. and continuing recovery in Germany, where Krone saw a 28% sales increase last year.

Voss also predicts a stable demand trend in Eastern Europe and North America, where in the past financial year Krone North America, based in Memphis, Tenn., reported a 38% increase in sales over the previous year.

Krone is also anticipating growing sales of its newly revamped range of Big X self-propelled forage harvesters in both North America and Europe. According to Voss, contractors and custom operators are opting for new Big X models over other established makes, especially as bio-energy crop production grows in Central Europe.

Krone produced 220 self-propelled harvesters last year and gained a 26.4% share in the German market, which totaled 451 units. This region was dominated by Claas, which sold 119 of the high horsepower machines, including twin-engine units.

Together with the Big M self-propelled mower and big square baler lines, Krone's high-value products account for an accelerating share of sales revenues, growing from 26% in 2003-04, through 39% last year and a forecast 50% in 2006-07. AEI

Torotak to Introduce 'Simpler, Quieter' IVT Transmission

A new style of infinitely-variable transmission is set go into production in the U.S. this year and could be operating in farm tractors within 2 or 3 years.

The device, which has been created by British design and development firm Torotrak, is said to be simpler and quieter in use than current CVT drives because the variator is mechanical rather than hydraulic and there are no clutch packs or intermediate gears as in some systems.

"The technology is readily scaleable so it can be applied to tractors of different sizes as well as other off-highway and on-highway vehicles," says John Fuller, leader of Torotrak's hydraulics group. "It requires little maintenance because there is no metal-to-metal contact between the traction drive components within the variator and it should be cheaper to make because fewer parts are involved."

First production units are due to be assembled early this year by Infinitrak Drive Systems, a Cleveland, Ohio-based joint venture between Torotrak and outdoor power equipment manufacturer MTD Holdings. Infinitrak holds the global intellectual property rights for the 0-30-hp power bracket and North American rights for 30-60-hp applications.

In Europe, Torotrak is working with one of the industry's biggest off-highway vehicle driveline manufacturers to produce ready-made transmissions for tractors and other vehicles. Two tractor makers are said to be interested in using the novel design.

In addition, Turkey's biggest tractor manufacturer, Uzel, has acquired rights to develop the technology for agricultural applications and has an option to manufacture transmissions in the 30-150-hp range.

Uzel owns the Holder compact tractor company in Germany and makes farm tractors under a Massey Ferguson license for sale in Turkey. It also builds AGCO's 400-series 50-100 hp entry-level MF models, which are sold in North America and Europe.

A key element of Uzel's interest in the transmission system is the simple hydro-mechanical control that Torotrak engineers developed for small to medium sized tractors. There is also a sophisticated electronic control system intended for higher performance tractors that gives engine-transmission management strategies equivalent to those available with current CVT drives. AEI

CNH to Split Blue and Red Brands in Europe — Again

Not seeing the success it hoped for when it consolidated the manufacturing and marketing of its New Holland and Case IH brands, CNH has decided to differentiate the two product lines in Europe, according to a December 15 report in *Farmers Weekly*.

As a result, the ex-Ford Basildon Works in England will now serve as the headquarters for New Holland, while Case IH is moving its base to the Steyr factory at St. Valentin in Austria.

According to Simon Thornton, vice president of New Holland's operations in Europe, management of both brands is now completely separated. "We need to differentiate ourselves. One step we've taken as New Holland is to markedly improve our service backup." AEI

Belarus Equipment Makers Pushing for Increased Exports

Farm tractor and machinery manufacturers in the Eastern European state of Belarus are pushing to increase exports of their products during the coming year. MTZ, the tractor manufacturer that sells under the Belarus name in most export territories, plans to increase sales into South America, while harvest machinery manufacturer Gomselmash is targeting its neighbors, Russia and the Ukraine.

Hit by the loss of traditional Eastern Bloc customers to western manufacturers, Minsk Tractor Works (MTZ) is urgently seeking new markets as it gradually recovers from a drop in both domestic and export demand for its tractors.

Among initiatives reported by the Interfax-West news agency are plans for local assembly of tractors in Venezuela and Brazil.

In the first 8 months of last year, production of MTZ/Belarus tractors and other power machines was reportedly up almost 17% to 32,900 units. Exports in the first-half reportedly grew 8.5% to 22,950 units with an increase in value of more than 25% to $328 million.

Gomselmash is aiming for a more substantial increase in export sales of its combines, forage harvesters, bi-directional power units for mowing and other field work, cultivation implements and potato, sugar beet and flax harvesters.

In 2007, says general manager Valeri Zhmailik, the company aims to sell 40% more of its production to Russia, which is already its biggest trade partner, accounting for 85% of exports. Last year, Russian farming enterprises reportedly bought $52 million of Gomselmash machinery, up more than 45% compared to 2005.

The Belarus concern sells its harvesting machinery into a number of regions in Russia, but is looking for distribution outlets where it is not represented. A pilot consignment of harvesters has been sent to the Krasnoyarsk region for demonstrations and the company plans to continue a joint venture in the Yaroslavl region to produce forage harvesting machinery.

In the Ukraine, says Zhmailik, Gomselmash wants to sell $15 million of farm machinery, a big increase over the $2 million it sold in 2006. AEI

New Study Confirms Growing Number of 'Ruralpolitans'

A survey commissioned by the National Association of Farm Broadcasters (NAFB), confirms the significant infuence that 'ruralpolitans' or 'weekend farmers' are having on the farm equipment industry. It should also be a clear signal to ag machinery dealers of the potential this group has for increasing sales.

A sampling of the data collected on the target segment of people in the U.S. that own 3 to 100 acres shows:

- 27 million households
- 69,126,313 family members
- 51% have an income of at least $75,000 per year (U.S. mean is $44,000)
- 72% work full time off the acreage
- 13% retired
- 97.8% own their land
- 89.8% have dogs (dog owners in the U.S. = 64.9%)
- 48% own horses
- 60% own cattle
- 82% own a pick-up truck
- 40% own a SUV
- 40% own an ATV
- 17% own a UTV
- 62% own a tractor of less than 18 hp
- 57% own a tractor between 18-50 hp
- 26% own a horse trailer
- 52% have hunting licenses
- 80% prefer to do their own home or property projects AEI

Titan International Sets Ambitious Sales Growth of 12% for Year

Managers at North America's fast-growing off-highway tire manufacturer, Titan International, have been given ambitious financial targets for 2007 as the company seeks to capitalize on the two tire-production facility acquisitions it made last year.

Titan chairman and CEO, Maurice Taylor, set a goal of $800-$825 million in sales for the year, up 11-12% from the 2006 target. Taylor is also aiming for a 40-44% increase in EBITDA to $105-$115 million.

"Although we've seen a dip in the ag market," says Taylor, "I think large farm tractor demand will start to pick up in 2007, especially given the demand for corn from the new ethanol factories."

He also is confident that changing attitudes among tractor manufacturers and their customers will improve sales of higher-specification tires at the expense of low-cost imported products.

"Once OEMs understand that they lose market share with no-name brand tires on their equipment, Titan will continue to pick up business," he says. "We also have the advantage of the largest dealer network in North America, with the combination of Goodyear, Titan, Continental and General brands."

As a follow-up to the Goodyear ag tire purchase, Titan International paid $41.4 million, plus another $11.5 million for inventory, to acquire Continental's off-the-road tire facility in Bryan, Ohio last year.

Yearly estimated sales of $215 million and $125 million from the two operations will be a significant addition to Titan's revenues, which in 2005 amounted to $460 million.

"Titan currently has excess capacity and the potential to increase output of off-the-road tires by at least 30% over the next 12 months," says Taylor. "We anticipate moving a large portion — about $10-$12 million — worth of idled assets to our tire factories while continuing to push for the disposal of the remainder, and expect to install $8 million worth of new equipment during the course of this year."

Titan has also increased its stake in Titan Europe, a former subsidiary, by almost 2% to just over 17%, through a shares issue made in payment of the entire long-term debt of approximately $7.9 million owed by the U.K.-based business. AEI

Equipment Sales Falloff Slows in December

The North American agricultural equipment industry retail sales comparisons finished 2006 on a relatively lackluster note, according Robert McCarthy, financial analyst for Baird. "December row-crop tractor and combine sales declined on a year-to-year basis, but the declines weren't as steep as those seen during the second half of '06," he reports.

"December's relatively soft comparisons continue to suggest that recent crop price increases may take time to translate into stronger agricultural equipment demand, a sentiment echoed by AEM's forecast for flat-to-down-slightly 2007 agricultural equipment sales," says McCarthy.

According to the latest sales figures released by the Assn. of Equipment Manufacturers, North American retail sales of row-crop tractors (2WD, larger than 100 hp) declined 5% year-to-year in December after a 25% drop in November. Overall, sales finished down 13% for full-year 2006. During the past 5 years, December's retail sales have contributed 9% of annual sales on average.

The 13% decline in 2006 full-year row-crop tractor retail sales was the most severe year-to-year decline since a 15% drop off in 200, according to the Baird analyst.

The results of the December sales survey show:

- North American retail sales of 4WD tractors increased 2% year-to-year, rebounding from four straight 15%-plus monthly year-to-year declines. Full-year 4WD tractor sales declined 14% in 2006.
- Retail sales of combines declined 6% in a year-to-year comparison, consistent with November's 5% decline. December contributes 11% of annual combine sales on average. Combine sales finished the year down 6% for '06, the third-largest annual decline since 1993, though the percentage decline was significantly more modest than the 47% decline in 1999.
- Dealer inventories of row-crop tractors, 4WD tractors and combines all declined by double-digit percentages in November (down 14%, 18%, and 13%, respectively). **AEI**

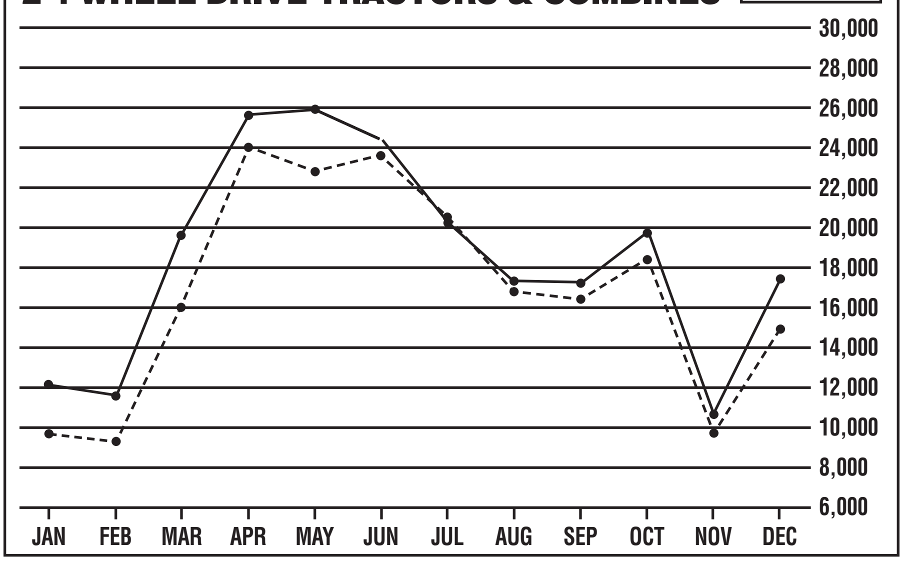
DECEMBER U.S. UNIT RETAIL SALES

Equipment	December 2006	December 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	November 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,985	7,971	+0.2	122,340	127,403	–4.0	60,099
40-100 HP	6,580	6,259	+5.1	75,555	75,684	–0.2	37,366
100 HP Plus	1,813	1,988	–8.8	16,682	19,771	–15.6	6,249
Total-2WD	16,378	16,218	+1.0	214,577	222,858	–3.7	103,714
Total-4WD	272	262	+3.8	2,988	3,638	–17.9	768
Total Tractors	16,650	16,480	+1.0	217,565	226,496	–3.9	104,482
SP Combines	809	841	–3.8	6,177	6,773	–8.3	1,155

DECEMBER CANADIAN UNIT RETAIL SALES

Equipment	December 2006	December 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	November 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	706	593	+19.1	9,856	8,198	+20.2	4,630
40-100 HP	735	576	+27.6	7,386	6,760	–1.2	1,629
100 HP Plus	378	318	+18.9	3,735	3,780	–9.3	2,996
Total-2WD	1,819	1,487	+22.3	20.977	18,738	+11.9	9,255
Total-4WD	68	69	–1.4	655	637	+2.8	141
Total Tractors	1,887	1,556	+21.3	21,632	19,375	+11.6	9,396
SP Combines	121	148	–18.2	1,583	1,564	+1.2	389

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



—Assn. of Equipment Manufacturers

Growth of Ag Stocks Surpass Most Other Market Sectors in '06

Surprisingly, the share value of the major firms involved in agriculture rose more than 30% and surpassed the growth of most other major market sectors in the U.S. economy in 2006.

By the time the trading year ended, the Dow Jones industrial average had gained 16%, the Standard & Poor 500 index grew by 14% and the NASDAQ had risen by 10% plus. According to the Chicago Tribune, the advances were the largest since 2003.

According to the paper, the biggest winning category for 2006 was telecommunications stocks, which were up 33% and energy stocks, which gained 23%.

But according to *AgriMarketing*, a portfolio of the publicly traded companies that have a significant presence in North American agriculture showed an increase of 34% for 2006.

While only three of the companies comprising the portfolio — AGCO, CNH and Deere & Co. — were equipment makers, each surpassed the gains posted by the other market sectors covered in the Tribune report. The largest gainers in share value within the ag sector, according to *AgriMarketing* included:

- Terra Nitrogen +93%
- **AGCO +87%**
- Potash Corp +80%
- Delta & Pine Land +79%
- Lindsay Corp +71%
- Valmont +67%
- CF Industries +69%
- Syngenta +54%
- **CNH +49%**
- Mosaic +46%
- **Deere & Co. +42%**
- Monsanto +37%
- Bayer +31%
- DuPont +19

AEI

TAKING STOCK: UNDER THE SURFACE AT AGCO AND DEERE

On speculation alone, the share value of the major farm machinery makers should see another solid year in 2007 and into '08. While few analysts present coverage on CNH as nearly 90% of its stock is held by Fiat, they are keeping a watchful eye on both AGCO and John Deere and other dynamics that may affect these companies' performance farther down the road.

AGCO — While much of the company's sales success in 2007 is heavily dependent on international markets (see "Slowing Worldwide Markets Will Challenge AGCO in '07" on page 1 in this issue of *AEI*), Barry Bannister, managing director of Industrial & Basic Materials Research for Stifel, Nicolaus, sees other potential and potholes for the Duluth, Ga.-based firm during the coming year.

Calling AGCO the "weakest North American player," Bannister believes the equipment maker has "room to expand its Caterpillar relationship in the area of adding combines while better distribution in North America may help improve its share in tractors."

Bannister also says that there is concern about AGCO's loss of custom application market share in sprayers as farmers appear to be interested in owning — not contracting — spraying capability.

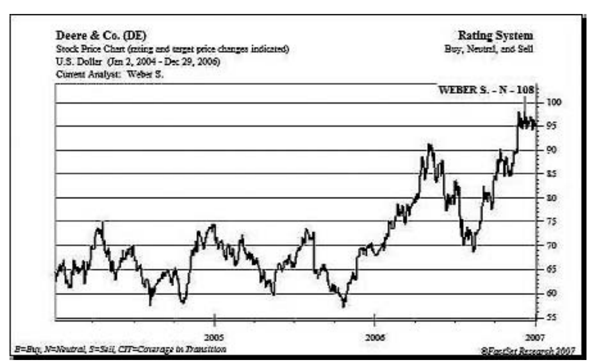
Charlie Rentschler, analyst for Wall Street Access, also speculates whether AGCO's Challenger equipment, distributed through Cat's construction dealers, will become the billion-dollar brand that it appeared to be when the partnership was formed.

John Deere — "Very low inventories, especially in combines, and the potential for that category to resurge in 2007, could bode well for Deere production, possibly in excess of retail, and thus incremental profit margins in North American ag equipment," says Bannister.

He adds that the recent decline in fuel costs erodes some of Deere's new engine's appeal in row-crop tractors, but "we do not expect energy prices to stay down for very long."

While Deere is clearly the 600-pound gorilla when it comes to farm machinery, Rentschler wonders about the firm's long-term outlook for construction equipment. "Deere is a 'me-too' player in construction and that's not a role that's comfortable for them."

THE RISING VALUE OF AGCO AND DEERE SHARES



As growers' incomes improve with the rising price of corn and beans during 2007, the stocks of AGCO and John Deere is expected to produce solid results as well.