From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

February 15, 2008
Vol. 14, Issue 10

- **Great Plains Adds Plant**
- **AGCO Margins Lag**
- **Stimulus Plan Effects**

CNH's Fourth Quarter Profit Triples, But Other Issues Lead to Uncertainty

While CNH Global set companywide "bests" with its fourth-quarter gross and operating margins, manufacturing and other underlying issues undermined investors' confidence in the world's second largest manufacturer of farm machinery.

On January 23, the Lake Forest, Ill.-based maker of ag and construction equipment reported that its earnings during the last quarter of 2007 more than tripled on a 34.8% sales gain, which was linked to higher sales of its farm and construction machinery.

"Our equipment operations gross margin rose to 18.8% and our operating margin rose to 8.2%, making them our best annual margins in CNH history," said Harold Boyanovsky, CNH Global chief. "Our revenue growth and margin improvements are a direct result of our actions to revitalize our brands, enhance our customer and quality focus, and leverage our global footprint, which also should contribute to further improvements in 2008."

CNH earnings rose to $114 million during October-December 2007 on sales of $4.33 billion. This compares to a year-ago gain of $35 million from revenue of $3.21 billion. During all of 2007, the firm netted $559 million on sales of $15.96 billion. One year earlier, its profit stood at $292 million on sales of $12.99 billion.

Ag Sales Up 44%. Overall, its farm machinery sales increased by 44% during the fourth quarter of 2007 to $2.8 billion compared with the prior year. Sales nearly doubled in Latin America and were up by 52% in North America. Construction machinery sales rose by 23% in the quarter to $1.3 billion. Sales nearly doubled in Latin America, but declined in North America by 23%.

Nonetheless, Bear Stearns analyst

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CNH AGRICULTURAL EQUIPMENT OUTLOOK — 2008

	Tractors	Combines
Worldwide	+0-5%	20-25%
North America	Flat	+5-10%
Western Europe	Flat	+5-10%
Latin America	+5-10%	+25%
Rest of World	+0-5%	+5-10%

Sources: CNH, Bear Stearns & Co.

Is Farmtrac the First Casualty of Compact Tractor Wars?

The falloff in the sales of compact tractors — units of 40 hp or less — in 2006 and '07 may be claiming its first casualty. According to a report in the *Daily Southerner*, Tarboro, N.C.- based Farmtrac America told its 180 employees on January 17 that the firm was "temporarily" shutting down its operations.

According to published reports, vice president and CFO Alton Cobb, Jr., confirmed that employees were being sent home for about 2 to 3 weeks "while we get some clarity" on the outcome for the workers, some of whom have been with the company for more than two decades. Cobb described the closing as a needed step to complete negotiations with "another firm or firms."

According to Cobb, Farmtrac officials are "having conversations" with prospective firms in an effort to "reorganize and restructure" due to the "lean season" the company has experienced.

A Flooded Market. The growth of the hobby farmer and rural lifestyler during the past decade and a half has fueled the rapid growth in sales of small tractors in North America. It's also added to increasingly fierce competition among tractor makers intent on taking advantage of the rural lifestyle phenomenon. Nearly all compact tractors are imported, with China, India and Korea being the major suppliers. In total, about 20 competing brands comprise

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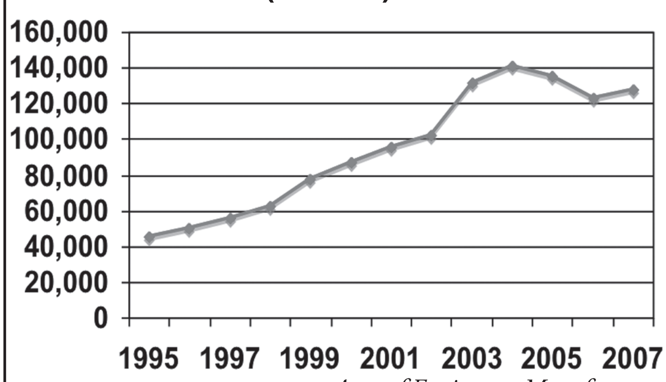
NORTH AMERICAN SALES OF COMPACT TRACTORS (<40 HP) — 1995-2007



—Assn. of Equipment Manufacturers

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Ann Duignan called CNH's results a "miss," which resulted from structural bottlenecks that hampered full margins.

Share Values Fall. Despite its outstanding results for the quarter, the value of CNH stock fell more than 20% at one point shortly after the company announced results for the period.

UBS analyst David Bleustein, in a note to investors, attributed the falloff to continuing manufacturing issues that negatively impacted CNH's fourth quarter margins. "CNH reported recurring EPS of $0.50, vs. the consensus estimate of $0.60 per share, as manufacturing inefficiencies negatively impacted margins. Equipment revenues were $4.1 billion, up 36% year-over-year and equipment operating margin improved to 6.5%, from 5.5% in the fourth quarter of 2006 — but expectations were higher," said Bleustein.

In addition, Bleustein added that CNH issued a disappointing earnings forecast for 2008. "Management forecast 2008 diluted earnings per share (net of tax) of $3.30-$3.60 vs. the 'then' consensus EPS estimate of $3.67 and net equipment sales to be up 10%-15% in 2008. Our 2008 earnings estimate remains $3.35 per share."

Manufacturing Inefficiencies. Bleustein also reported that for the first time ever, Fiat CEO Sergio Marchionne led the conference call with analysts that discussed CNH's fourth-quarter results. Fiat owns nearly 90% of CNH shares and Marchionne serves as a CNH director and chairman of its board.

Bleustein reported that "the subsequent discussion surrounding manufacturing inefficiencies surprised investors and resulted in the stock price's decline. CNH indicated that its gross margin performance in the fourth quarter was negatively impacted by logistical and manufacturing inefficiencies as the company was not able to keep up with pent-up volume demand, particularly in its agricultural equipment.

"In 2008, CNH again expects double-digit revenue growth, which we believe could further complicate issues as additional volumes are derived in busy plants (agricultural equipment and non-U.S. construction), but underutilized plants face further revenue decline (U.S. construction). Management noted supplier constraints, particularly on the mechanical side of tractors. CNH believes it has identified the causes of the inefficiencies and that the issues are fixable. CNH commented that it would 'work diligently' in 2008 and in 2009 to remove the structural bottlenecks it believes caused the inefficiencies," says Bleustein.

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CNH AGRICULTURAL (in millions of dollars)

	Actual 4Q 2006	Actual 3Q 2007	Forecast 4Q 2007	Actual 4Q 2007
Revenue				
Agricultural Equipment	1,904	2,299	2,418	2,743
Operating Profit				
Agricultural Equipment	86	175	148	N/A
Gross Margin*	18.0%	19.4%	19.1%	17.1%
Operating Margins*	5.5%	8.4%	6.9%	6.5%

Sources: Company Reports, Bear Stearns & Co.

**includes construction equipment and financial services*

OWNERSHIP STRUCTURE A CONCERN

Bear Stearns analyst Ann Duignan says investing in CNH bears close scrutiny. In addition to the manufacturing efficiency woes, Fiat's ownership of 90% of CNH poses some significant risks to investors, according to the Bear Stearns analyst.

Investors On Guard. Noting that shortly after CNH announced its financial results for the fourth quarter of 2007, "investors grew concerned about Fiat's ability to make its numbers, and CNH's role in this risk, CNH closed down 16% and was down more than 24% at one point. This highlights the risk inherent in the ownership structure," she says. While she thinks a Fiat credit downgrade is unlikely, it would negatively impact CNH's cost of debt.

And if recent history is a precursor of Fiat's future approach to its Case IH and New Holland brands, internal funding could be a battle. "A portion of CNH's cash generated is deposited into a Fiat cash management pool, and Fiat management allocates cash as it sees fit," says Duignan. "If Fiat management decides that other areas of business are more attractive, CNH could be starved of much-needed capital required for product expansion and development."

The internal conflict goes even further, because of the ownership structure, which allows Fiat to elect all directors on CNH's board. "Fiat's interest may conflict with CNH's minority shareholders," says Duignan.

Better Bets. On an absolute P/E basis, CNH stock is trading at 13.1x Bear Stearns' 2008 EPS estimate of $3.82 and 10.1x its 2009 EPS estimate of $4.94.

Duignan points out that CNH's main competitors — AGCO and Deere — are trading at an average multiple of 17x '08 consensus estimates.

"We continue to believe that the company's current revenue outlook is realistically conservative, particularly in ag equipment. However, its outlook for margins and non-operating items has caused us to lower our 2008 and 2009 outlook [for share value] as its risk profile has just increased due to execution risk as well as its ownership structure," says Duignan.

"We believe that the sector will be under pressure as investors rotate out of agriculture in general and into economically sensitive names. If this is the case, we would prefer to own the quality name, Deere, or the name more leveraged to the secular growth trends in Brazil, i.e., AGCO."

AG EQUIPMENT INTELLIGENCE (ISSN: 1934-3272) is published monthly for the farm equipment industry by Lessiter Publications Inc., P.O. Box 624, Brookfield, WI 53008-0624. Please send any address changes as soon as possible to the address shown above.

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CNH also indicated that while its plans were not yet finalized, the company intends to shift some production to U.S. factories from European facilities, though Bleustein says this might be an immaterial change on a $15 billion revenue base.

2008 Outlook. CNH indicated that it is looking for a 10-15% overall sales increase for all of 2008. It also predicted it would generate higher sales in over 40-hp farm tractors in North America for 2008.

However, unit sales of under-40-hp farm tractors are expected to remain unchanged from 2007 or down by 5%, with the overall North American industry flat. North American industry sales of over-40-hp tractors are expected to be up 5-10%, this year, with sales of over-100-hp equipment up nearly 10%. For the coming year, the company projected that unit sales of combines in North America will also be up 5-10%.

> ***"Manufacturing inefficiencies surprised investors and resulted in the stock's decline."***

Outside of North America, for the 2008 full-year, the firm expects industry unit sales of farm tractors to be flat to slightly up, with industry sales in the Latin American market rising 5-10%. Tractor unit sales in Western Europe are expected to be flat or up 5% vs. 2007 levels.

Overall, CNH expects the worldwide industry unit sales of over-40hp and total farm tractors to rise slightly compared with 2007.

Combine sales are expected to increase 20-25% compared with 2007, and to be up in every major market around the world. **AEI**

East European Tractor Makers Mount Market Defense Against Western Competitors

Western farm equipment manufacturers piling into Central and East European markets are beginning to face more competition from small domestic producers, including new start-ups that are turning the tables by drawing on Western technology to produce modern tractors at a lower cost.

In Slovenia, the Limb company has been making tractors only since 2005 but is already having an impact at home. Now, it is looking to export markets such as Ireland, Germany and the U.K. for future sales growth.

Among the Western-sourced components used in the two LUXS models — the 58-hp Limb 60 and 82-hp Limb 85 — are Carraro transaxles and Perkins engines. A third model, the Limb 90 LUXS, is currently being modified to meet Western regulations.

The company's general manager, Natalija Potonik Jerman, claims a 57% increase in sales last year, albeit from a low starting point, as domestic demand increased and exports to nine European markets got underway.

Polish company Pronar, based in northeast Poland, has embarked on a new product program using Western technologies while continuing to produce its MTZ (Belarus) based tractors for the Polish market.

The four-model 82-101-hp Pronar P5 series tractors use Perkins and Iveco engines coupled to a simple ZF transmission or a higher-spec Carraro assembly with more speeds. Electro-hydraulic lift, hydraulic couplings and hitch components also come from familiar Western sources.

Pronar says it plans to enter the heavyweight sector this year with 180-hp and 265-hp tractors using Deutz 6-cylinder engines and a ZF T7000 series transaxle topped by a modern 4-post cabin. **AEI**

FARM MACHINERY TICKER (AS OF 2/12/2008)

Mfr.	Symbol	2/12/08 Price	1/11/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$63.13	$63.80	$71.95	$35.00	25.05	2.13 M	5.78 B
Alamo	ALG	$18.41	$18.50	$28.37	$16.77	17.87	22,800	180.36 M
Art's Way	ARTW	$26.77	$29.06	$39.75	$7.02	24.33	41,900	52.94 M
Caterpillar	CAT	$70.00	$66.01	$87.00	$59.60	13.04	6.93 M	44.52 B
CNH	CNH	$47.03	$58.80	$70.00	$34.03	18.02	791,400	11.16 B
Deere	DE	$86.46*	$89.26	$94.77	$51.07	21.62	5.46 M	37.67 B
Kubota	KUB	$31.27	$30.60	$53.23	$28.34	12.26	92,900	8.08 B
Titan Mach.**	TITN	$16.58	$17.00	$18.50	$9.18	N.A	352,900	221.58 M

**On November 14, Deere & Co. shareholders approved a two-for-one stock split in the form of a 100% dividend.*
*** Titan Machinery undertook its IPO with approximately. 6 million shares on December 6, 2007 at $8.50/share.*

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the compact tractor market, plus the recent emergence of Bobcat and Yanmar.

Since 1995, sales of compact tractors have grown from 45,700 units to a high of nearly 142,000 units in 2004. Since then, sales have trailed off, falling to 135,000 units in '05 and 123,500 in 2006.

"If you would've asked me a year ago if this sector of the industry will see any significant consolidation, I would have said no," says Rodney Miller, executive vice president, sales and marketing for McCormick International U.S.A. "But in the last year alone, it's changed a lot and there will be a lot more changes going forward, especially if the dollar continues to weaken." He adds that it's "very likely" that the industry will see consolidation with the compacts.

Spurned Offer. For more than a year, Farmtrac has resisted moves to consolidate, spurning attempts by Montana Tractors to buy into Farmtrac's operations.

In January 2006, Springdale, Ark.-based Montana Tractors purchased 80 acres of land in Tarboro, which was to be used to increase strategic distribution of Montana's products. The land was adjacent to Farmtrac's operations.

Shortly thereafter, Montana issued a letter of intent to purchase a minority stake in Beaver Creek Holdings LLC, which holds 51% of Farmtrac stock. At the time, Montana said its goal was to be one of the top five tractor suppliers in the U.S. by the year 2010.

Hoping to quell the takeover rumors, Ashok Chadha, CEO of Escorts Ltd., said, the board turned down a share acquisition bid by Montana Tractors and that "the Escorts Group and Farmtrac are here for the long haul."

Volunteer Staffing. Cobb said that while no further production will take place until further notice, the shipping, support and service components of Farmtrac will continue to operate — all on a voluntary basis. In the article, Shenu Agarwal, head of marketing, reported that about 40 employees are working voluntarily.

AEI learned that most of the workers, except for parts people, have been since sent home, possibly for good. **AEI**

THE FARMTRAC FALLOUT

Given the current conditions of the compact tractor market, many, if not most, industry observers will be surprised to see Farmtrac survive. The fallout from Farmtrac closing its doors could leave this segment of the ag equipment industry reeling for some time to come.

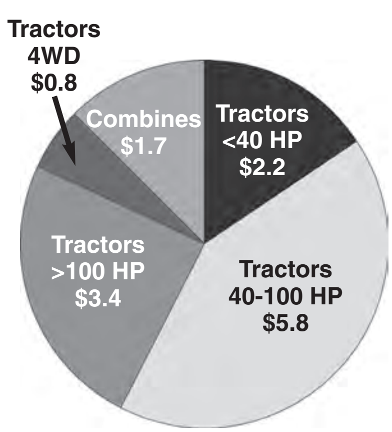
One industry executive familiar with the Farmtrac situation told *AEI* that Textron owns the lien on all of Farmtrac's inventory at the factory and in the field, as well as its buildings and equipment. "I seriously doubt that Textron will continue to operate the company," said the source. "My guess is they'll liquidate it."

Some estimates put 4,000 Farmtrac tractors on dealers' lots with a "fair amount of units" still in Tarboro. If Textron pulls the plug, their dealers will have no retail financing and warranties and parts supports will be questionable, at best.

On top of all this, *AEI's* sources say that Farmtrac sold a lot of product with less than 0% financing. With this scheme, customers financed their purchases at regular rates and Farmtrac sent them a check every quarter for the difference in that interest. "That's all going away. Now, these customers will unexpectedly need to pay the going interest rate, which could put them in jeopardy in terms of keeping their equipment."

And if Textron decides to liquidate Farmtrac's assets, it'll be an even tougher time for compact tractor makers and dealers. "It's going to hurt retail because to move those tractors, they will probably discount them hard," says *AEI's* source. "For the next 6-12 months the market's going to be hurt because of this flood of tractors that will be sold for 30-40% less than what they're worth."

Value of Ag Equipment Sales Up Nearly 5% in 2007
(billions of $)



The value of tractors and combine sales rose 5% in 2007 to $13.9 billion.

Source: AEM and AgriMarketing

Great Plains Adding Capacity to Increase Tillage Tool Production

Great Plains Manufacturing of Salina, Kan., is adding 130, 000 square feet of production capacity to increase production of two of its tillage lines.

According to the January 26 edition of the *Salina Journal*, Great Plains is buying a vacant facility in Ellsworth, Kan., to meet the growing demand for its disc harrow and Turbo-Till product lines, currently produced in Tipton and Salina, Kan., respectively. The article cited that the expansion will result in 50 new jobs and be up and running within 6-9 months.

The company currently employs 1,000 people in its Great Plains and Land Pride divisions throughout several north-central Kansas towns.

Great Plains owner and president, Roy Applequist, cited a strong domestic and world market for the need to increase production.

"We don't have enough production capacity; we're just pretty crowded," Applequist said. "Grain prices are strong, and that's helping us do more business. The export business is strong, too. The weak dollar is an important part of that." **AEI**

AGCO Rebounds in 2007, But Margins Lagging Rest of Industry

While AGCO can feel pretty good about its 2007 financial results, industry observers are still wondering when the Duluth, Ga.-based maker of farm machinery will catch up with the operating margins of the other big players in ag equipment.

On February 7, AGCO Corp. reported that it returned to profitability during the final quarter of last year with a $81.1 million gain. Its overall sales rose by 32.9% to $2.17 billion. A year ago, the firm lost $128.5 million from lower revenue of $1.63 billion.

For the year, AGCO said it earned $246.3 million on higher sales of $6.83 billion. This compares to a 2006 loss of $64.9 million from sales of $5.43 billion.

AGCO also said its cash on hand at the end of last year rose to $582.4 million from $401.1 million a year earlier. Inventory valuation increased to $1.13 billion from $1.06 billion and the value of its outstanding long-term debt fell dramatically to $294.1 million from $577.4 million during the same periods, reflecting a healthy balance sheet.

Margins Lag Industry. Despite AGCO's performance, Barry Bannister, analyst for Stifel Nicolaus, found their lagging margins troublesome. "AGCO's fourth quarter operating profit margin (OPM) was 5.9% vs. 5%, only slightly above the 9-month third-quarter OPM of 5.7% despite continued sales growth. Net debt/capital was 5% vs. 20% in the fourth quarter of '06, arguing for a share repurchase, in our view."

Bannister also found it surprising that the company's incremental margins weren't bette: AGCO's fourth-quarter incremental margin was just 8.7% compared to CNH's ag-equipment's, which was 11% in the same period.

"We view 15-20% as more achievable and desirable. AGCO appears to us to be a bright Europe/Africa/Mid-East (EAME) spotlight surrounded by 40-watt bulb performances elsewhere, but management is addressing the issue."

According to Bannister, during the final period of the year, EAME represented 60% of sales and 84% of AGCO's profits, producing a margin of 10.4% vs. 8.7%. "The incremental of 17%, offset a disappointing South American (16% of fourth-quarter sales and 13% of profit) OPM of 5.9% (~7.4% ex-currency and M&A) vs. 6.9% despite 84% sales growth. North America (22% of sales, no profit) had a fourth-quarter loss margin of 0.6% vs. 4.3% as adverse currency (importing EU-built tractors) and other issues continue to inhibit results."

Sales Expectations Surpassed. While expectations for AGCO's unit sales easily beat the Street's expectations —33% vs. 15% — David Bleustein, machinery analyst for UBS,

> ***"A bright EAME spotlight surrounded by 40-watt bulb performances elsewhere..."***

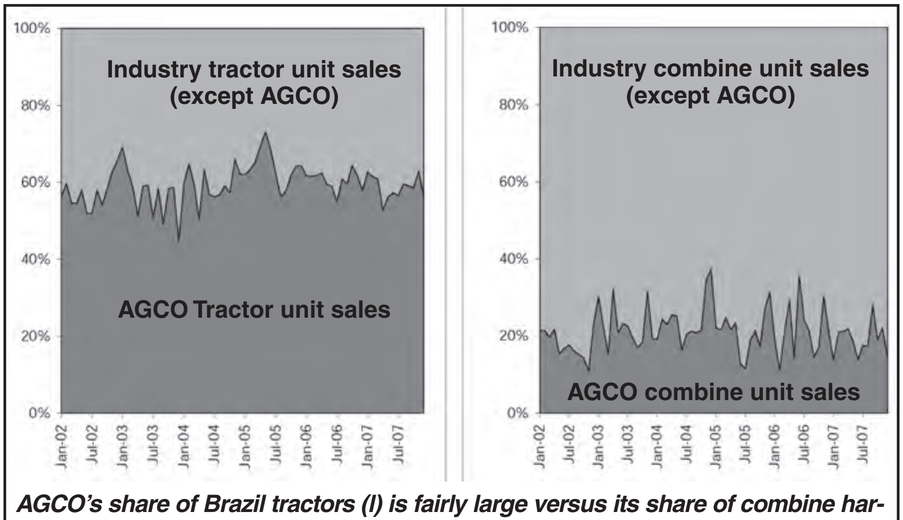
wrote that, "sales were up 21% excluding currency on a 27% increase in unit builds. Excluding currency exchange, the sales improvement was driven primarily by strength in South America (up 59%), the EAME region (up 13%), North America (up 28%) and the Asia Pacific region (up 6%).

"Parts sales increased 15% year-over-year (excluding exchange) to $227 million. Segment operating margin improved to 7.4%, from 5.8% in the fourth quarter of last year, driven by sales growth, product mix and benefits from cost control initiatives, partially offset by foreign currency headwinds. We calculate that fourth quarter segment incremental margins were roughly 12%, compared to our expectation of 14%," Bleustein says.

2008 Outlook. For 2008, AGCO expects sales to increase 11-13% from 2007 levels and margins to improve over 2007 levels. The company expects production to be up 5-8% vs. 2007. By region, management forecast strong conditions in South America and in North America, with Europe flat as lower industry sales in Western Europe are offset by higher industry sales in Eastern Europe.

But Wall Street Access analyst Charlie Rentschler sounds a cautionary note regarding AGCO's worldwide strength. "AGCO is losing market share in South America to Deere and CNH Global, its margins in EAME appear to have reached an optimum level — and competition is fierce — and they just can't get traction in the U.S."

In terms of strategic initiatives, AGCO continues to expect a $50 million (pre-tax) incremental investment on strategic initiatives in 2008, including $25 million in incremental R&D, $10 million on systems/process improvement and $15 million on other growth initiatives. The company spent $50 million on strategic initiatives in 2007. AEI



AGCO's share of Brazil tractors (l) is fairly large versus its share of combine harvesters (r).

Source: ANFAVEA, Federal Reserve exchange rates, Stifel Nicolaus

NEWS FROM EUROPE

Perkins to Build Engines in China. Caterpillar's Perkins Engines business has unveiled plans to build a new manufacturing facility in China to produce small to medium-size diesel engines, initially making the Perkins 400 Series of three- and four-cylinder, liquid-cooled, naturally aspirated and turbo-charged indirect-injection power units before adding the larger 1100 Series diesels.

The plant, which will be operated by the Perkins Shibaura joint-venture, will supply Chinese OEMs and the company's existing global customers with a manufacturing base in China. Perkins has appointed three distributors to handle sales and after-sales service; production start-up is scheduled for September with an ultimate capacity of more than 100,000 engines a year.

Valtra to Source Turkish Tractors. Valtra is preparing to outsource tractor production for the first time by testing examples of the 800 Valtra "A" Series 74-101hp utility tractors that licensee Hema Endüstri has built for the 30,000-unit Turkish market.

At present, Hema supplies only gearboxes to Valtra's Suolahti plant in Finland, but it does make other components for the Turkish-market tractors.

Hema is a member of the Hattat Holding Company group and a leading component manufacturer. It produces steering gear, braking systems, hydraulics and powertrain components under license for Turkey's domestic automotive and agricultural machinery industries, as well as for export to Europe and the U.S.

Kverneland Investing in Plows. Norway's Kverneland group is expecting to spend $9.5 million upgrading its core moldboard plow manufacturing and assembly facility. The investment is intended to increase capacity and improve delivery performance in order to meet increased market demand for the Kverneland-branded implements and is part of a $14.5 million spending program scheduled for the next 3 years.

Krone Racks Up Record Sales. Booming sales of self-propelled forage harvesters to cut crops for both feedstock and energy production in Europe and the U.S. helped lift sales at Germany's Krone through the 300 million euro mark for the first time.

Revenues from agricultural equipment sales in the 2006-07 fiscal period were up 15% on the prior year, amounting to the equivalent of $452 million. A 22% increase in parts sales reinforced Krone's decision to create a new Service & Parts business.

Output of the company's "BiG" line of self-propelled mowers and harvesters amounted to around 1,000 units — a small portion of the 20,000 individual machines made by the company last year, which grew from 15,500 the year before — but representing more than 40% of sales by value.

The company claims 10% of the worldwide market for self-propelled forage choppers, which it estimates at 2,400 units, and aims to boost that performance this year by assembling 300-350 of the BiG X harvesters.

A number of new high-tech features (ConstantPower system and yield metering/recording with moisture sensing, to name a few) should help Memphis, Tenn.-based Krone North America sell these high-capacity machines.

These features are among the results of a $12 million investment last year, which also saw the installation of a new paint facility at the Spelle works in Germany to improve finish quality and increase capacity by over 60%.

Tonutti Enters Seeding Market. Tonutti S.p.a. of Remanzacco, Italy, announced on January 14 that it acquired the technology and manufacturing rights to Technoagricola's Quasar air-seeder product line, including its patented Collovati Opener. The new brand will be called Tonutti Technoagricola, and was discussed with North American farmers at the National No-Tillage Conference in Cincinnati in advance of the announcement.

The Tonutti Group is best known as a manufacturer of hay and forage equipment, and acquired the Wolagri round baler line last year. "This investment represent an important step because it allows us to further expand our worldwide presence into the seeding equipment market," says Carlo Tonutti, president.

Sweden's Väderstad Going Global. One of Europe's leading specialized tillage equipment manufacturers is looking to accelerate an already impressive growth record. Väderstad CEO Crister Stark wants to lift annual growth from 12-14% to 20% by continuing to roll out products into new markets.

"On average, we are opening one new sales and distribution subsidiary a year," he says. "Last year, we set up businesses in Ukraine and Russia."

The 49% shareholding that Väderstad acquired in the Canadian air-drill company Seed Hawk in 2006 is giving the company a complementary product line to market. It has worldwide sales rights to Seed Hawk technology outside North America and Väderstad's investment helped fund a $2.8 million (Canadian) manufacturing facility that increased production capacity from 130-300 machines per year.

Väderstad is extending its own factory almost continuously; last year's project expanded the assembly line for the company's highly successful Rapid disc tillage drill and added a new cultivator assembly line to the three created over the previous 18 months.

High-tech robot welding and a unique three-dimensional laser cutting system producing parts from tube and flat bar are also part of the latest installation.

Financially, the business is on a roll, having a continuous record of annual sales growth since 1982. In 2006, sales revenues surpassed $160 million, with seed drills accounting for 50%, cultivators 38% and parts 12%.

Last year's annual output of 4,300 implements (while a static volume, the average machine size increased) was achieved by running two assembly shifts, working weekends to meet demand peaks, and operating a night shift for the paint shop and robot welding operations.

With the paint barely dry on Väderstad's new "east wing," plans are already moving forward on extending the factory to add a new fabrication area. AEI

Ag Equipment Sales Get off to a Quick Start in January

With U.S. sales of over 100 hp tractors up 25%, 4WD tractor sales up 23.3% and combine purchases up 11.9% in January compared to year earlier levels, the new year has gotten off to a fast start for ag machinery dealers and manufacturers.

Robert McCarthy, an analyst with Robert W. Baird, says retail sales of over 100 hp tractors and combines continued to post strong double-digit year to year increases.

But in January, sales of tractors under 40 hp were down 20.3% while 40-100 hp tractors dropped 19.5% from year-ago levels.

Canadian Picture. January sales were even brighter in Canada. Total tractor sales were up 39.9% while combine sales increased 22.9% from year earlier levels.

Row crop tractor inventories at the end of December were 1.8% above year-ago levels and and 4WD tractors inventories were 10.2% higher than a year earlier says analyst David Bleustein of UBS Investment Research.

Utility tractor inventories were down 10.8% from year earlier levels. Combine inventories on Dec. 31 were 4.0% below year-ago levels.

"Our expectation is that U.S. farm machinery sales will improve significantly in 2008, driven by elevated farm commodity prices, healthy farmer balance sheets and expected record levels of net farm income," says Bleustein.

More Ag Dollars In mid-February, the USDA projected 2008 net farm income will rise to $92.3 billion, a 4% increase from the $88.7 million forecast for 2007. This would be 51% above the prior 10-year average of $61.1 billion, due to higher crop prices.

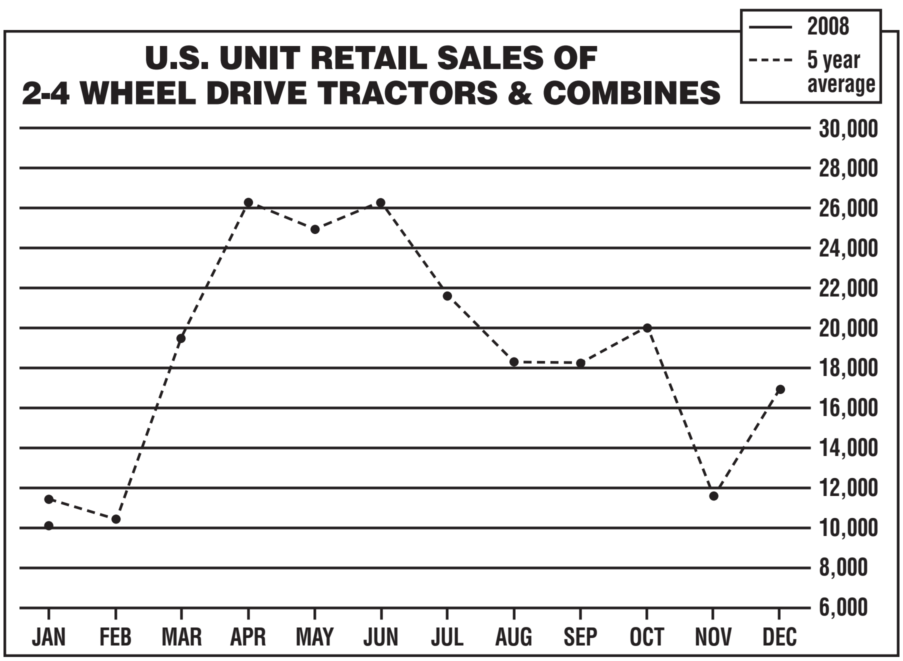
Record prices and record volumes for wheat, corn, soybeans and related crops are a farmer's dream, maintains Ann Duignan, an analyst with Bear Stearns & Co. "In our view, this dream may be a reality for a few seasons," she says." **AEI**

JANUARY U.S. UNIT RETAIL SALES

Equipment	January 2008	January 2007	Percent Change	YTD 2008	YTD 2008	Percent Change	Jan. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	3,950	4,957	-20.3	3,950	4,957	-20.3	56,413
40-100 HP	3,727	4,632	-19.5	3,727	4,632	-19.5	32,607
100 HP Plus	1,694	1,355	+25.0	1,694	1,355	+25.0	5,921
Total-2WD	9,371	10,944	-14.4	9,371	10,944	-14.4	94,941
Total-4WD	249	202	+23.3	249	202	+23.3	862
Total Tractors	9,620	11,146	-13.7	9,620	11,146	-13.7	95,803
SP Combines	451	403	+11.9	451	403	+11.9	903

JANUARY CANADIAN UNIT RETAIL SALES

Equipment	January 2008	January 2007	Percent Change	YTD 2008	YTD 2008	Percent Change	Jan. 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	537	319	+68.3	537	319	+68.3	4,976
40-100 HP	417	311	+34.1	417	311	+34.1	2,658
100 HP Plus	178	169	+5.3	178	169	+5.3	1,433
Total-2WD	1,132	799	+41.7	1,132	799	+41.7	9,067
Total-4WD	25	28	-10.7	25	28	-10.7	134
Total Tractors	1,157	827	+39.9	1,157	827	+39.9	9,201
SP Combines	43	35	+22.9	43	35	+22.9	182



—Assn. of Equipment Manufacturers

2008 Economic Stimulus Bill Could be a Boon for Ag Equipment

The temporary increase in the limitations on expensing certain assets coming in the 2008 Economic Stimulus Bill that was signed into law on February 13 by President George Bush is a positive for ag machinery sales.

According to Ann Duignan, analyst for Bear Stearns & Co., it is designed to incentivize businesses to spend more on equipment or capital goods as it raises the minimum threshold to receive the expensing benefit from $510,000 to $800,000, while nearly doubling the amount allowed to be expensed from $128,000 to $250,000.

The second provision — focused on the bonus depreciation — would be of particular value to farmers — particularly in a year of expected record cash receipts. In either case, businesses are able to take advantage of a substantial tax shield.

"The last time we saw accelerated depreciation in 2004, ag machinery sales in the fourth quarter of '04 were up 45% year-to-year," Duignan wrote in a note to investors.

"Ag machinery sales have a high correlation with total farm cash receipts and we currently forecast record total farm cash receipts of $337 billion in 2008. In a year with high cash receipts, an accelerated deprecation schedule would serve as a strong incentive to purchase equipment because it gives farmers an aggressive way to shield their incomes from tax obligations," she says.

"In short, high cash receipts and bonus accelerated depreciation, in our view, are a formula for strong U.S. ag machinery sales in 2008." AEI

Buhler First-Quarter Net Up Despite Strong Canadian Dollar

On February 8, Buhler Industries, Winnipeg, Manitoba, reported that its earnings during the first quarter of fiscal 2007-08, which ended December 31, increased significantly, despite the strong Canadian dollar.

Buhler earned a much higher $1.2 million (Canadian) during October-December 2007 on sales of $32.4 million. During 2006, the company reported gains of $121,000 from revenues of $28.3 million.

Buhler noted that it expected wider sales during the first quarter, but it shipped fewer than expected units of farm tractors due to supply chain issues. The firm says it expects the problem to be corrected to meet normal production levels.

Outlook for 2008. Company officials from Russia's Combine Factory Rostselmash, which acquired Buhler last year, say they expect a slight increase in North American farm tractor sales and strong growth in its farm tractor export market.

For all of 2008, the firm forecasts an increase in revenues of 30-45% to nearly $240 million on higher farm tractor turnover.

The firm also will increase farm tractor production this year to 1,100 units from 600 units through additional investments and by hiring 100 new workers at the production site in Winnipeg. AEI

Deere First Quarter Revenue Up 18%, Net Income Jumps 55%

Highly favorable conditions throughout the global farm sector and a positive response to Deere's products resulted in an increase in first quarter revenues of 18% compared to year earlier figures. Net income jumped by 55% compared to year earlier levels.

The result was net income of $369.1 million, or $0.83 per share. It was $0.52 per share a year ago.

Big Farm Demand. Worldwide net sales and revenues increased by 18% to $5.201 billion for the quarter, up from $4,425 billion a year ago. Net sales for equipment operations were $4.531 billion compared with $3.815 billion for the same period last year.

"Advanced product offerings that help John Deere customers be more profitable and productive are supporting the company's financial performance and helping expand our global market presence," says Robert W. Lane, Deere chairman and CEO.

"Deere's non-agricultural operations remain on a profitable course in spite of weakening economic conditions in the U.S."

While Deere's first quarter earnings were modestly above the consensus, Robert McCarthy of R.W. Baird says the company's second quarter forecast is below consensus projections.

Big Boost From Ag. For the first quarter, ag equipment sales increased by 33%. Operating profit was $332 million compared with $137 million last year.

For the quarter, all equipment sales in North America increased 9%. Net sales outside North America were up 37%, which included a positive current-translation effect of 11%.

Deere's equipment divisions reported an operating profit of $457 million for the quarter, up from $270 million last year. Company officials say this was largely due to the favorable impact of higher sales, production volumes and improved price realization. It was partially offset by higher selling, administrative, general expenses and raw material costs.

Full Year Sales Projections. For the entire year, Deere is estimating that equipment sales will increase by 17%, up from an earlier full year forecast of 12%.

Deere expects retail sales of ag equipment in North America to increase 15-20% in 2008, up from the previous 10-15% forecast. South American growth should exceed 15%. Western Europe should be up 3-5%.

Full year ag sales around the world are expected to increase by 28%, a boost from an earlier estimated 17% increase. Commercial and consumer sales should be up 8% while construction and forestry sales will likely remain flat. AEI