

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- 'Mad Corn Disease'
- CNH Restructures
- New Boss at Montana

John Deere Coming Under Scrutiny for Alleged Antitrust Violations

John Deere dealers — after years of fearing reprisal from their major supplier, and having long only “whispered” their anger, frustration and concerns — may soon get some relief when it comes to the farm equipment maker’s approach to dealer consolidation.

Deere, which was sued for alleged antitrust violations in 2006 by a prospective dealership buyer, filed a reply brief to the plaintiff’s brief on January 11, 2007. The case has now been submitted to the judge on the issue of whether the dispute must go to arbitration before the court can hear the dispute.

Alleged Antitrust. The antitrust complaint against John Deere & Co. was filed in the Federal District Court for the Southern District of West Virginia. The complaint alleges that John Deere & Co.’s effort to consolidate its dealerships constitutes an ille-

gal restraint of trade under the Sherman Antitrust Act. (*James C. Justice Companies, Inc. v. Deere & Company*, No. S:06-0287 (S. D. W. V. filed Apr. 19, 2006).)

“Your dealership could be worth millions, but without Deere’s approval, it’s worthless ...”

According to the complaint, Deere has instituted a nationwide policy to consolidate as many dealerships in as few dealer hands as possible. This would require dealers to acquire additional dealerships or sell their existing dealerships to larger dealers.

In this instance, Blueridge Farm Center, a John Deere retail outlet, had entered into an agreement to purchase R.P. Johnson Sons, Inc. The sale was subject to John Deere & Co.’s approval, but the manufacturer refused to consent to the sale unless Blueridge also purchased another Deere retail outlet. Blueridge indicated that it had no interest in acquiring the additional dealership.

The suit alleges that Deere threatened to discontinue its dealership relationship with Blueridge if the dealer acquired R.P. Johnson without also acquiring another John Deere retail outlet.

The complaint states “that Deere & Co. is willing to approve the sale of R.P. Johnson to another company for less than the liquidation value of R.P. Johnson because the sale would further John Deere & Co.’s dealership

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USDA Reports Send Corn Markets Reeling; Prospects Remain Solid for Equipment Sales

“This market is very sensitive to new information. We’re going to see more volatility in a week’s trading than you’d see in years past in a whole season,” said Bob Thompson, a farmer and ag analyst, in an April 4 report in *cnn-money.com*. “Heightened sensitivity to news is the message.”

When the USDA issued its Planting Intentions Report on Friday, March 30 projecting that 90.5 million acres of corn will be planted in 2007, the price of corn dropped immediately by 20 cents a bushel to \$3.83. The following Monday the price fell

even further to \$3.54, down 21% from a high of \$4.50 per bushel on February 26.

For reference, the projected corn planting is the highest since World War II. This is up from an earlier USDA forecast of 88 million acres and up even further from the 78 million acres planted in ‘06.

With the U.S. ending stock estimate for 2006-07 increasing to 877 million bushels, up 125 million bushels from March, this pushed the average corn price projection to \$3.00 to \$3.20 (vs. \$3.00 to \$3.40 last month).

The change was driven by projections for higher stocks, larger 2007 intended acres and prices received to date, according to Bank of America analyst Seth Weber. Global corn production estimates moved higher, to 695.9 million tons from 693.2 tons in March, reflecting higher production in South America and Africa, while consumption dropped by 1.5 million tons. Global ending stocks are now projected at 91.8 million tons compared with 87.8 in March (vs. 124.4 at end of 2005-06).

Now, the thinking is that farmers

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consolidation policy.”

As one long-time dealer put it, “Your dealership could be worth millions, but without Deere’s approval, it’s worthless.” He maintains there are numerous cases where the equipment manufacturer’s handling of cases like this has been ruthless.

According to the dealer, who like others has requested anonymity, dealers were required to sign a contract that calls for arbitration, in the case of a contract dispute, rather than having the option of suing John Deere.

“Deere has a policy to consolidate dealerships in as few hands as possible.”

The dealer relates a recent case in which 18 Tennessee dealers consolidated to start a dealer group. The group didn’t want to acquire one outlet because it was overpriced. Following directions from Deere that required the lone store to sell or face contract cancellation, the store was purchased by the group for 45 cents on the dollar.

These and other alleged tactics used by Deere are being openly challenged and bear watching by all equipment dealers. **AEI**

A MANUFACTURER-DEALER CASE TO WATCH

While it doesn’t involve farm equipment, the U.S. Supreme Court is currently considering a case that pits the interest of manufacturers against retailers. The ruling may determine if manufacturers can set specific minimum retail prices, thus giving them veto power over discount pricing schemes used by retailers.

The case involves Leegin Creative Leather Products, a luxury leather goods company, which is being sued by Kay’s Closet, a Dallas-area retailer. Leegin stopped selling product to Kay’s in 2002 after it repeatedly was told to stop discounting one of Leegin’s most popular handbags by as much as 20%.

Under current law, a manufacturer can suggest a price but not punish a retailer for any deviation. This would be considered price fixing and a violation of the Sherman Antitrust Act. The Supreme Court is scheduled to hear the case this spring.

NAEDA TACKLING “DEALER PURITY”

In an April 2, 2007, memo to John Deere dealers, the North American Equipment Dealers Assn. (NAEDA) stated that it was moving the issue of “dealer purity” to the top of its priority list. The memo said, “The last alternative we are exploring would identify a dealer who is willing to be a ‘poster child’ for this issue and file a lawsuit against the company [John Deere] in question.”

NAEDA had scheduled a meeting with Deere’s top management for April 4 to discuss the situation.

Dealer purity, sometimes referred to as “brand cleansing,” is a demand from manufacturers that dealers carry only their brands. While all major manufacturers have been criticized for the practice, John Deere has received the most attention due to veiled threats that accompany the demands.

An anonymous Deere dealer explains, “Their new mantra is we need to be ‘Deere Loyal Dealers,’ and if we don’t march down the path, we’re not going to grow if we continue to carry competing lines.

“We’ve done our level best to be a ‘Deere Loyal Dealer,’ but where does this leave us when we have holes in our product line because Deere doesn’t make a product or it’s inferior to the shortlines?” asks the dealer.

“They’re telling us to give up the products that we’re carrying that aren’t John Deere green. When we ask them ‘What do you have to fill that gap?’, their answer is ‘You wouldn’t sell products that aren’t profitable for you. Some of these things aren’t profitable for us to make.’ So, where does that leave us as dealers with customers who need these products?”

In a letter that appeared in the March 2007 issue of *Farm Equipment* (see Mailbox on p. 8), a John Deere dealer called off the acquisition of another Deere dealer after the manufacturer insisted on “an exit plan for shortlines A, B and C.”

In its memo, NAEDA says, “The issue has quickly graduated from an attempt to get dealers to voluntarily abdicate other lines in favor of a few selected offerings (models) to one in which dealers are being asked to completely abandon all competing lines at all locations before receiving a new buy/sell agreement.

“Absent some form of compromise or movement in a positive direction, we will pursue other means of dealing with this matter.”

Record Worldwide Grain Crop Seen for 2007

World cereal grain production in 2007 is forecast to increase 4.3% to a record 2.082 billion metric tons (BMT), according to the UN Food and Agriculture Organization’s (FAO) Crop Prospects and Food Situation report.

Corn accounts for much of the rise brought on by strong crops in

South America and the big acreage increase signaled in the March 30 USDA Prospective Plantings Report.

FAO predicts coarse grain production will hit 1.033 BMT in 2007, while wheat production is seen up 4.8% at 626 million metric tons (MMT). Global rice production could

rise marginally to 423 MMT in milled terms, about 3 MMT more than was produced in 2006.

Despite the upturn in production, FAO says that 33 countries worldwide remain in a critical situation relative to food supplies due to conflict and adverse weather. **AEI**

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may back away from their original plans to increase corn production and shift back to soybeans. Regardless, analysts still see solid results for farm equipment sales in 2007.

"We've become incrementally more positive on the ag machinery opportunity recently, given relatively high corn prices, comparably low crop inventories and improvements in Brazil. Over time, high crop prices and high farm income drive investment in ag machinery," says Weber. "For now, our positive longer-term view of the global ag cycle is tempered by valuation."

Considering the volatility of the corn market, UBS analyst David Bleustein, in his April 10 report to investors, says that he is maintaining a neutral view on the stocks for the major farm machinery makers.

"This reflects our belief that the stocks are fairly valued and the risk that corn prices could decline over the summer months (given higher than expected yields/ending stocks), placing downward pressure on the stocks of the farm equipment manufacturers."

He's maintaining his 2007-08

SUMMARY OF USDA'S PLANTINGS REPORT

Driven by growing ethanol demand, U.S. farmers intend to plant 15% more corn acres in 2007, according to the Prospective Plantings Report released on March 30 by USDA's National Agricultural Statistics Service (NASS). Producers plan to plant 90.5 million acres of corn, the largest acreage since 1944 and 12.1 million acres more than in 2006.

The increase in intended corn acres is partially offset by a decrease in soybean acres in the Corn Belt and Great Plains, as well as fewer expected acres of cotton and rice in the Delta and Southeast.

U.S. farmers plan to plant 67.1 million acres of soybeans, the lowest total since 1996, representing a decrease of 8.4 million acres — or 11% — from 2006. Acres planted to cotton are expected to total 12.1 million acres, down 20% from 2006.

Acres intended for rice are estimated at 2.64 million acres, down 7% from 2006 and down 22% from 2005. If realized, this would be the lowest planted rice acreage since 1987.

Wheat acres are expected to increase 5% from 2006, to 60.3 million acres. Other crops with expected acreage increases are grain sorghum, up 9%, canola up 12%, and barley up 7% from last year's record low.

yield estimate of 160 bu./acre, which is higher than that of the USDA's forecast of 152.8 bu./acre. "We believe the single largest risk to the stocks of the farm equipment manufacturers is the potential for a larger than expected corn crop to cause an increase in inventories and a reduction in corn prices over the summer."

Bleustein adds that considering corn's volatility and iffy early spring weather conditions, farmers are apt to

change some of the earlier intentions to plant additional corn this year.

"Farmers could opt to plant soybeans instead of corn. We believe actual corn plantings will fall below the USDA's estimate primarily due to the recent pull-back in corn prices. Additionally, farmers could begin to weigh other considerations more heavily, such as wet weather, which could delay corn plantings, and the higher cost of planting corn vs. other crops."

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WSA Initiates Coverage of Titan International

Wall Street Access announced on March 20 that it is initiating coverage of Titan International, Inc., the maker of agricultural and construction equipment tires. "We believe Titan is poised to grow EBITDA by more than 100% over the next 2 years," says Monica Logani, WSA vice president. "Our \$36 price target represents a 40% upside from current levels."

"We believe Titan is poised to benefit from a concurrent boom in the mining and agriculture tire industries. During the last 15 months, Titan made two strategic acquisitions, aligned its assets and solidified its low-cost advantage."

In initiating its coverage, Logani says, "The ethanol boom is taxing farm machinery production while elevated crop prices are making farmers

wealthier. Titan's revenue growth is levered to an upswing in agriculture equipment spending and a continued supply imbalance of mining tires."

Titan competes in a \$3 billion market that is expected to grow 20% during the next 2 years. "We expect Titan to grow its top line at a rate faster than the overall market," says Logani.

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FARM MACHINERY TICKER (AS OF 4/11/2007)

Mfr.	Symbol	4/11/07 Price	3/12/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$36.24	\$37.28	\$39.50	\$20.76	NA	1.75M	3.31 B
Alamo	ALG	\$23.57	\$23.75	\$26.00	\$19.25	20.37	8,548	230.16 M
Art's Way	ARTW	\$7.50	\$8.10	\$9.19	\$4.87	15.89	6,972	14.84 M
Caterpillar	CAT	\$66.35	\$64.57	\$82.03	\$57.98	12.83	6.21 M	42.85 B
CNH	CNH	\$36.40	\$39.48	\$41.09	\$18.76	29.52	402,485	8.60 B
Deere	DE	\$108.43	\$113.01	\$116.50	\$66.90	14.93	2.59 M	24.60 B
Kubota	KUB	\$43.18	\$49.89	\$60.60	\$38.51	16.87	31,540	11.15 B

‘Mad Corn Disease’ is Exposing Dark Lining of Ethanol’s Silver Cloud

“For every dark cloud, there’s a silver lining” is an old adage that gives hope in tough times. But if you’re listening to some keen observers of U.S. agriculture, the dark lining of ethanol’s silver cloud is starting to become increasingly evident these days.

With all its hype and promise of good times ahead for corn growers and suppliers, the boom may be short-lived, according to some analysts.

Charlie Rentschler, for one, is calling the phenomena “Mad Corn Disease.” The Wall Street Access agribusiness analyst says, “While doubling corn prices and triggering happy-times for U.S. agriculture, federal ethanol policy is going to lead to disastrous results, in our opinion, that could collapse like a house of cards, among other dire consequences.”

The outcome, he says, is not good for farm equipment makers or seed and fertilizer suppliers.

And despite the hoopla surrounding the escalating price of corn, Barry Bannister of Stifel Nicolaus

points out that the USDA inflation-adjusted U.S. corn price of \$3.79 in 2007 “has only crawled back to the 1988-97 average of \$3.70.”

Much of the concern in the corn-ethanol debate comes down to — corn, itself. First is the world’s reliance on this abundant staple. Second is the cost, in terms of total resources, to distill it into ethanol, thus reducing our dependence on Middle East oil.

Practically Speaking. Writing in the April 3 *Wall Street Access* newsletter, Rentschler says that from a practical standpoint, ethanol produced from corn is not the solution to reducing U.S. dependence on oil.

“There are some good things about corn-ethanol. It’s a perfect substitute as an oxygenate for MTBE which has been banned. Though it’s a farm subsidy, it really just takes the place of the LDP — the loan-deficiency payment, now that crop prices are up so nicely, and there are so many negatives.”

Among these, Rentschler lists:

✗ Ethanol production is uneconomic

without the \$0.51 per gallon tax-credit to the blender and the \$0.53 per gallon tariff on Brazilian ethanol.

✗ Corn-ethanol causes lower miles-per-gallon than gasoline.

✗ Other renewable fuels (namely sugar-cane ethanol and soybean-based biodiesel) require less BTUs per acre of output.

✗ The U.S. could become totally independent of OPEC if we emulated the Europeans and drove small (often diesel-powered) cars and trucks.

Another practical matter that has been largely ignored, says the WSA analyst, is the inability of U.S. farmers to grow enough corn to come anywhere close to making E85 fuel a reality — without further aggravating world tensions.

In the WSA scenarios (Table 1), even a mild drought in the next few years would leave the U.S. with little or no corn available for export.

“The U.S. is, running-away, the largest producer of corn in the world. With per-capita income rising and tastes changing from starch to protein, other people, particularly Asians, want to emulate our dietary ways. We can visualize a scenario 2-3 years out where the then-president of China visits the then-president of the U.S., wags a finger in his (or her) face, and insists that exports of corn resume. Wars have been started over far less trifling matters,” says Rentschler.

Despite the USDA’s forecast of 90.5 million acres of corn in 2007 — the highest level since 1944 — this according to analysts is leading to a

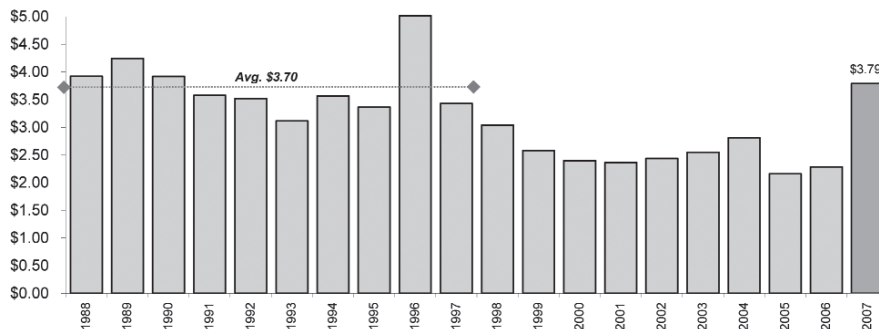


Chart illustrates the per-bushel price adjusted for inflation between 1988 and 2007. As shown, real corn prices are now only “crawling back” to the average price seen between 1988 and 1997.

TABLE 1. U.S. CORN OUTLOOK

Optimistic Scenario

Crop Year	2006	2007	2008	2009
Beginning stocks (bil. bushels)	2.0	0.8	1.0	1.0
Production	10.5	12.4(a)	13.0(b)	13.7(c)
Available	12.5	13.2	14.0	14.7
Ethanol production (bil. gal.)	5.4	8.5	10.0	11.6
Corn for ethanol	2.0	3.1	3.6	4.2
Other domestic use	7.5	7.7	7.9	8.1
Exports	2.2	2.2	2.5	2.4
Needed	11.7	13.0	14.0	14.7
End stocks	0.8	1.0	1.0	1.0

Ethanol as % of production 19% 25% 28% 31%

(a) 89 mil. acres x 153 bu./acre x 91% acres harvested

(b) 5% y/y growth (more land, same yield)

Pessimistic Scenario

Crop Year	2006	2007	2008	2009
Beginning stocks (bil. bushels)	2.0	0.8	0.7	0.5
Production	10.5	11.5(a)	11.1(b)	11.5(c)
Available	12.5	12.3	11.8	12.0
Ethanol production (bil. gal.)	5.4	8.5	10.0	11.6
Corn for ethanol	2.0	3.1	3.6	4.2
Other domestic use	7.5	7.7	7.9	8.1
Exports	2.2	0.8	0.5	0.0
Needed	11.7	11.3	12.0	12.3
End stocks	0.8	0.7	0.5	0.2

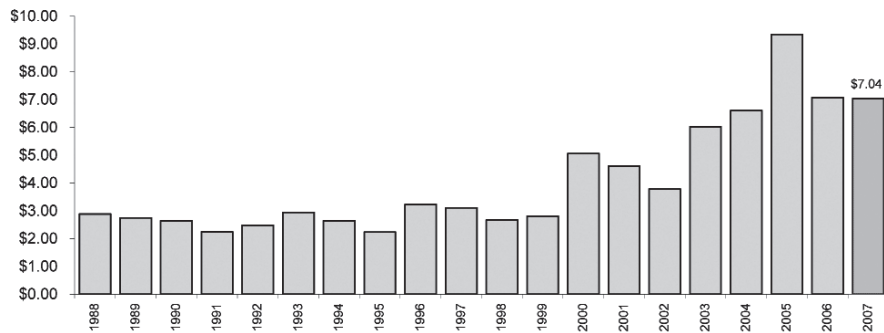
Ethanol as % of production 19% 27% 32% 37%

(a) 87 mil. acres x 145 bu./acre x 91% acres harvested

(b) 90 mil. acres x 135 bu./acre x 91%

(c) 90 mil. acres x 140 bu./acre x 91%

Source: Historic data: USDA; Forward estimates: Wall Street Access



Inflation-adjusted natural gas, a proxy for nitrogen fertilizer cost, of \$7.04 per Mcf is among the highest prices of the past 20 years, when the price averaged \$4.05.

false sense of capability.

"It is typical that early in a commodity price recovery 'experts' foresee large amounts of supply coming on stream quickly," says Stifel Nicolaus' Bannister. "Also, in a period of abundance, the concept of 'plenty' becomes a veritable birthright for consumers, while resulting in a pervasive depression for producers. As a result, the large, initial gains in commodity price off the bottom seem larger than they are in real terms, engendering confidence in a supply 'bail-out.'"

A Costly Approach. Critics of U.S. ethanol policy also cite the economics of distilling corn for ethanol as yet another reason why the corn-ethanol bubble will burst sooner rather than later.

"The reality is that it's costly and incredibly inefficient to unlock energy stored inside plant cells, relative to the effort needed to distill comparable volumes of fuel from crude, even crude as expensive as it is today," Igor Greenwald writes in his smart-

money.com column on March 7.

"The reality is that making biofuels from Brazilian sugar cane is much easier, cheaper and kinder to the environment than using midwestern grain. The reality is that we care about all those principles so much as to impose a stiff tariff on Brazilian ethanol, lest it displace our homebrew."

Backing up Greenwald's economics, Bannister adds, "Inflation-adjusted natural gas, a proxy for nitrogen fertilizer cost, of \$7.04 per Mcf is among the highest prices of the past 20 years, a period in which the real natural gas price has averaged \$4.05."

In addition to the energy required to distill ethanol from corn, according to Bannister, corn uses almost 70% of the combined nitrogen, phosphate and potash applied in the U.S., making it "an expensive crop" to grow.

Economic Shockwave. In his column, Greenwald quotes Dave Juday, former ag advisor to Dan Quayle. "Yeah, sure this year it's a great windfall if you raise corn; if you raise livestock

you're in a whole lot of trouble. It has increased land rents out in Iowa: I've heard of land more than doubling per acre. This is a major shockwave hitting the whole farm economy."

The current good news regarding the corn-ethanol story, according to Greenwald, is that as the meat producer's ox is getting gored, "the push for ever-bolder renewable fuel standards no longer looks like a runaway train."

"If you'd asked me a month ago to handicap whether the renewable fuel standard would get expanded this year in Congress, I would have said the chances are 90%," says Juday. "You ask me today, the chances are 50%. People are waking up and smelling the coffee, smelling the \$4 corn." **AEI**

Kelly Employees Seek Change

In March, the employees at Kelley Manufacturing Co., Tifton, Ga., (an ESOP company) signed a petition to remove Jimmy Martin, president, and Tim Maxwell, director of operations. Longtime executive E. Lanier Carson, chairman of the board, is now directly overseeing the operation again.

The 40-year-old operation, which has 200-plus employees, manufactures equipment for peanut harvesting, poultry houses, cotton/hay and land-forming. The firm purchased the Philips Rotary Harrow last year from Precision Metal Fabricating as an entry into more diversified ag markets. **AEI**

Clarke Out at New Holland, Price to Oversee NA Sales

Troy Price has been named to the newly created position of vice president of sales to oversee the New Holland North American sales organization, the company announced on March 21. He will be based in New Holland, Pa.

At the same time, the company also announced that Lorenzo Sistino, president of New Holland worldwide, on an interim basis will assume the responsibilities of David P. Clarke, former vice president of New Holland Agricultural Business in North America, who is pursuing other opportunities.

Clarke was the third person to hold the job at New Holland in the past 2 years.

Most recently, Price served as vice president of North American sales and marketing for CNH Capital's agricultural and construction sales and marketing finance operations. Before joining CNH Capital, he was vice president of Energy Rentals for GE's North American Operations.

In his new position, Price is responsible for promoting

sales growth and increased profitability of the North America market, and directly managing New Holland's sales staff. He will report to Sistino.

One New Holland dealer that AEI spoke with said that he was quite surprised by the move and wondered why Price took the job.

"Dave was let go during senior management's winter meeting. My understanding was that he had failed to hit his budget, yet he was only at the helm for a short period. I don't know if he and Marchionne (Fiat president and CEO) didn't see eye-to-eye or what," says the dealer who asked to remain anonymous.

"I find it interesting that Troy Price took the job to leave CNH Capital, given the career-ending move it appears to be considering the track records of the people who have recently held the job. But he's an energetic guy with some vision. He should be indispensable to Sistino in providing a link to the North American dealer body." **AEI**

Dedicated Compact & Utility Equipment Dealers Present Consolidation Option for AGCO

While the small tractor market has cooled off, *Ag Equipment Intelligence's* visits with tractor manufacturers based in the Atlanta area in late March showed that they are increasing their stakes in this arena, including new entries from firms known for their "production agriculture" tractors.

At AGCO, the movement toward more dedicated lifestyle farmer dealerships has presented a solution to the necessary dealership consolidation that all manufacturers are facing.

Doug Griffin, AGCO vice president, North American Marketing, adds that most of the necessary dealership consolidation at AGCO is taking place via natural attrition. "But the Compact & Utility Equipment (CUE) contract is helping move things along in a way that's also good for the dealers," he says.

According to Eric Raby, vice president-marketing, Massey Ferguson North

America, Massey Ferguson's CUE contract has presented a choice for dealers. The firm is actively pursuing dealers for the CUE contract, and some of those numbers are coming from traditional farm equipment dealers whose market has changed around them.

"The presence of the CUE contract allows a dealer to make an educated business decision based on their local market and where their best route for prosperity and growth is," he says.

While some hobby farmers want to do business at the traditional farm equipment dealership because "they're pretending to be farmers," Raby cautioned that that is more likely the case with that customer who had previous on-farm experience. He believes more of the buyers in the segment will choose the convenience of doing business at a dedicated CUE dealership, in a less intimi-

dating environment. "The dollars are there for a highly engaged CUE dealer," he adds.

"A lot of dealers are moving in the CUE direction anyway," says Griffin. "There's less capital required. The CUE dealer makes more of his money on the machine itself, and sees far less on parts and service. That is a big change from how the traditional farm equipment dealership operates, plus you need to know how to sell to an entirely different type of customer."

Different from the volatility of traditional ag markets, small tractor sales directly reflect interest rates, fuel prices and consumer confidence. Despite its cooldown, Raby sees good things ahead for the small tractor market. "Particularly as telecommuting continues to grow, you'll see more people choosing to work in the country," he says.

AEI

CNH Restructures Company into 4 'Distinct Legal Entities'

With the announcement that it is once again restructuring the company, this time into 4 "distinct legal entities," some Case IH dealers are wondering, "What's next?" Otherwise, the news barely created a ripple in the ag equipment world.

In an April 3 memo to Case IH dealers, Randy Baker, president and CEO of now-called Case IH Agricultural Equipment, Inc., told dealers, "In 2006 CNH was reorganized to refocus on its brands and its customers. Brands, business units and major function have been given profit-and-loss responsibility with clearly

specified targets, not only for profitability but also for market share, working capital and cash flow.

"We are taking this strategy to the next level by converting each brand into to a distinct legal entity. Our new company will be called Case IH Agricultural Equipment, Inc. but it will continue to exist within the scope of a single, stronger company — CNH Global. I will assume the title of Chief Executive Officer of Case IH Agricultural Equipment, reporting to Harold Boyanovsky, president and CEO of CNH Global."

According to Baker, the only visible

signs of the restructuring will be some "minor updates" to the Case IH logo "designed to create consistency between Case Construction and Case IH Agriculture and continue the evolution of our heritage brands."

The same approach is being taken with New Holland ag and construction equipment.

Web site message boards speculate that the Fiat Group, which owns nearly 90% of CNH shares, may be situating itself to divest one or more of the new companies should the situation present itself.

AEI



Fertilizer Shortage Developing?

Demand for nitrogen-based fertilizer may exceed supplies this spring due to increased corn and wheat plantings and diminished U.S. production, according to the *Brock Report*.

"The fertilizer industry is telling us that they cannot supply more than 85 to 86 million acres," Ernesto Fajardo,

vice president of U.S. crop production for Monsanto told attendees at the Commodity Classic in March.

The "big limit" for expanding corn acres in 2007 revolves around fertilizer supplies and not seed, he said.

The problem is that U.S. nitrogen-based fertilizer production has

declined sharply since the 1990s due to higher natural gas prices. As a result, U.S. agriculture is much more reliant on imports, which take longer to reach the market place. To complicate matters, a wet fall and winter prevented many Midwest producers from making normal fertilizer applications.

AEI

Equipment Sales Pick Up Steam During March

North American tractor retail sales began the spring selling season on a relatively strong note with row-crop tractor sales increasing 9% year-to-year, while combine sales declined only 1%, according to the latest figures released by the Assn. of Equipment Makers.

"Despite the adverse reaction in corn prices to the USDA's Prospective Plantings Report, industry fundamentals remain extremely positive," says Baird analyst Robert McCarthy.

"A projected 3% increase in major crop acreage and 10% increase in farm net income in 2007 bode well for future agricultural equipment demand, especially in 2008."

✕ North American retail sales of row-crop tractors (2WD; >100 hp) increased 9% year-to-year in seasonally important March after increasing 6% in February. Sales had declined 1% during the first quarter of '07. March retail sales contributed 10% of annual sales on average during the last 5 years.

✕ Retail sales of 4WD tractors were up slightly year-to-year in March after declining 29% on the same basis in February. Sales of 4WD tractor declined 10% during the first quarter. March is a relatively important month for 4WD tractor sales as well, likewise contributing 10% of average annual sales.

✕ Retail sales of combines declined 1% in March, down from February's 29% increase. March is a seasonally less important month for combine sales, contributing an average of only 5% of annual combine sales.

✕ Dealer inventories of row-crop tractors, 4WD tractors and combines were mixed in February, with row-crop inventories down 1% year-to-year, 4WD inventories up 9% and combine inventories down 34%.

✕ Corn futures closed April 10 at \$3.69/bushel, down from near \$4.18/bushel in early March, but still up 56% year-to-year.

✕ Soybean futures were also down, declining about 2% month-to-month to close at \$7.43/bushel. Wheat futures declined about 6% month-to-month, closing April 10 at \$4.78/bushel.

AEI

MARCH U.S. UNIT RETAIL SALES



Equipment	March 2007	March 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	February 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	11,579	10,919	+6.0	21,397	22,673	-5.6	65,717
40-100 HP	7,870	6,303	+24.9	16,632	15,026	+10.7	39,389
100 HP Plus	2,292	2,005	+14.3	4,781	4,717	+1.4	6,163
Total-2WD	27,741	19,227	+13.1	42,810	42,416	+0.9	111,269
Total-4WD	362	370	-2.2	730	828	-11.8	872
Total Tractors	22,103	19,597	+12.8	43,540	43,244	+0.7	112,141
SP Combines	412	415	-0.7	1,154	1,002	+15.2	901

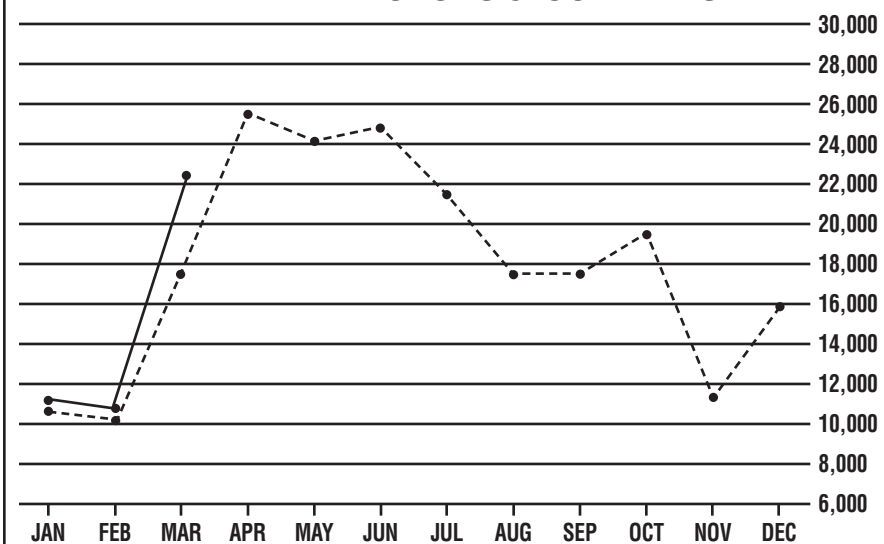
MARCH CANADIAN UNIT RETAIL SALES



Equipment	March 2007	March 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	February 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	662	477	+38.8	1,278	1,046	+22.2	5,517
40-100 HP	611	534	+14.4	1,167	1,275	-8.5	3,237
100 HP Plus	308	375	-17.9	601	704	-14.6	1,549
Total-2WD	1,581	1,386	+14.1	3,046	3,025	+0.7	10,303
Total-4WD	86	76	+13.2	136	133	+2.3	179
Total Tractors	1,667	1,462	+14.0	3,182	3,158	+0.8	10,482
SP Combines	81	85	-4.7	164	169	-3.0	441

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

— 2007
--- 5 year average



—Assn. of Equipment Manufacturers

Growing Pains at Montana Tractors: New Leadership Aims to Fix Mistakes

Between August 2004 and April 2007, Montana Tractors' annual revenues grew from \$4 million to \$78 million. It's expected to pass \$100 million in '07. During this period, the dealer network of the Springdale, Ark., manufacturer of compact and utility tractors increased from fewer than 30 dealers to more than 355. In those 3 years, the company, which was majority owned by trucking magnate, B.J. Hunt, expanded its product line to include 28 implements, ZTR mowers and 30-plus tractor models. It was selected as 2006 Arkansas Business of the Year by *The Arkansas Business Journal*.

On the surface, it would be hard to see that anything was wrong. But on March 21 Rodney Miller, the CEO who oversaw Montana's rapid, early growth resigned from the firm to be replaced by Ted Wade who joined the company in 2006.

Wade became a part owner and vice chairman of Montana Tractors shortly after the firm's dealer convention in January. With that change, CEO Miller began reporting to Wade, who previously was COO. After several weeks, Miller tendered his resignation.

About the unexpected change in leadership, Wade, in an exclusive interview with *AEI*, said, "It had more to do with my relationship with Mr. Hunt. I came to Montana as consultant at the request of Mr. Hunt to help get the supply chain going. He then asked me to permanently join Montana in 2006 as chief operating officer to look after operations and other things. He had said last year before his death that he wanted me to have an ownership role. The Hunt family was honoring his wishes."

The Miller Plan. During his tenure, Miller made it clear that his 5-year plan was "To be one of the five largest tractor distributors in the U.S. by 2010 in the 20-100 hp range," and he boldly predicted that Montana would have 900 dealers by 2010, nearly triple what it started 2007 with.

"Conservatively, I would say that is not where we'll end up," says Wade. "I don't know whether it's 350, 500 or something else. We want to succeed by

"When you grow as rapidly as we did, you're bound to find yourself in a catch-up mode..."

being able to retail that tractor. We need to have a solid dealer network that services and supports dealers." Wade constantly reiterates that the focus of the ownership group is not about dealer numbers, but focusing on the ability of its current dealers to retail more tractors.

"From a personality standpoint, my background and experience facilitate action with a strong sense of follow-up," says Wade, who grew up in the schools of Sam Walton (Wal-Mart) and J.B. Hunt, where he has spent much of his working career. "There's a strong sense of urgency. That's me. As part of that, I'll always be straight with dealers. They may not always get the answer they want, but it will be factual and committed from a follow-up standpoint."

From *AEI's* perspective, Wade

earned the respect of the dealers during the firm's 2nd annual dealer convention in Springdale in early January, when, from the podium, he said that Montana had made mistakes and was working on its problems.

"When you grow as rapidly as we did in 2.5 years, you're bound to find yourself in a catch-up mode," says Wade. "You need the right people, the right skill and the right attitude. We didn't have the right people in the right areas, like administration, which is why we put in a SAP computer system in May and why we're rolling out Ironware RFID tractors. You have to be able to invest money in the beginning to get the results at end."

"Now, we are slowing down because as you keep growing, you can forget the little guys you started with. We want to make sure we've done our absolute best. We didn't do the absolute best and need more focus on dealer level."

With Miller's departure, Tom Patterson was promoted to vice president of marketing and sales, and now has two regional managers (east and west). Bob Goltz was named vice president of operations. Scott Finley is the new vice president of supply chain and will oversee the areas of procurement and logistics.

As for Miller, the word on the street is that he has been approached by several tractor manufacturers, and not necessarily those that make small tractors only. He previously worked in key management roles for Valtra, Mahindra and Long Agribusiness (now FarmTrac), and also owned his own equipment dealership for 8 years. **AEI**

Demand for French Ag Equipment Fueled by Eastern Europe

The rapidly emerging markets of eastern Europe and Russia continue to fuel growth for the French farm equipment industry, which are currently valued at \$3.9 billion, according to *Farmers Weekly*.

"French machinery exports have increased every year for the past 13 years and have doubled in the last 10

years," says Jean-Paul Papillon of the machinery exporters' association SYGMA.

French machinery exports increased 6% last year to an estimated \$2.2 billion, he says. Germany accounts for 20% of French exports, the U.K. and U.S. for 10% and Russia for only 2%. But exports to Russia are

showing significant growth, with a value of \$2.1 billion last year compared with \$0.075 billion in 1993.

"Many eastern European governments provide grant aid to help their farmers buy new tractors and the French machinery industry is increasingly seeing the benefits of those investments," says Papillon. **AEI**