From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Cat to Sell AG Sprayers
- China Ups Purchases
- April Sales Improve

First Quarter of 2007 'Very Good' to Major Ag Equipment Manufacturers

When CNH reported first-quarter revenues of $3.24 billion on April 23, compared with $3.07 billion during the same period in 2006, the results "surprised Wall Street." The world's second largest maker of farm equipment posted a net income of $95 million, up 121% over the first quarter of last year.

One analyst called AGCO's most recent 3-month results "impressive with better-than-expected revenue growth and margins." On May 2, the third-largest ag machinery maker reported that its net sales for the first quarter came in at $1.3 billion compared with nearly $1.2 billion for the first quarter of 2006. For the first quarter, the Duluth, Ga.-based firm reported net income of $24.5 million vs. $17.3 million for the same period last year.

Earlier, in mid-February, the world's largest farm equipment maker, Deere & Co., said its worldwide net income of $238.7 million for the first quarter surpassed its 2006 results of $235.9 million. Worldwide net sales and revenues increased 5% to $4.425 billion for the first quarter compared with $4.202 billion a year ago. Net sales of the equipment operations were $3.815 billion for the quarter compared with $3.691 billion last year.

The robust showing by each of the majors during the quarter continued to boost the share value of each other. Following AGCO's quarterly report on May 2, the most recent of the three to post earnings, shares of all three equipment makers rose. Following its announcement, AGCO shares rose $1.15, or 2.8%. The value of Deere shares rose $4.06, or 3.7%. And shares of CNH Global rose $1.14, or 2.6%. Deere was scheduled to report it second-quarter numbers on May 16.

An in-depth look at the first-quarter results of CNH and AGCO appear on p. 2-3 in this issue of *AEI*. AEI

FEMA Considering Action on Possible Restraint of Trade by Major Manufacturers

On May 2 the Farm Equipment Manufacturers Assn. (FEMA) announced that it retained legal counsel in its investigation of whether the major equipment manufacturers efforts to force dealers to eliminate competing products from their stores violate trade laws. This practice is often referred to as "dealer purity."

According to the statement, "Within the past couple of months, we have heard stories about majors decreasing volume bonuses to dealers who handle competing products within their dealerships. More recently, we have heard circulating stories about one particular major refusing to sign buy/sell agreements if the selling or purchasing dealership either sells or purchases any competing equipment.

"If these stories are true, it surely smacks of restraining trade. The North American Equipment Dealers Assn. (NAEDA) has approached one tractor company explaining that they may be in violation of state dealership contract laws," according to FEMA.

During its Spring Management Clinic in Panama City in April, the FEMA board voted to retain an antitrust attorney to guide its efforts in investigating alleged restraint of trade violations by the major equipment manufacturers. FEMA members are largely comprised of shortline equipment manufacturers, many of which compete for dealership floor space with the majors.

In email correspondence with *AEI*, FEMA executive vice president Bob Schnell confirmed that FEMA has retained antitrust attorney Thomas J. Collin with Thompson Hine in Cleveland, Ohio, "to give us advice on how to proceed in this matter. Initially, we are attempting to determine exactly what is happening out there in the field."

Schnell said, "I hesitate to outline our exact plans regarding the exclusionary effects of the Deere policy on specialized equipment manufacturers' access to dealers and customers. I do not wish to tip our hand this early."

Complaints about dealer exclusivity have been prevalent for over a year, says Schnell, but they've been "particularly acute during the past couple of months." In some cases, the majors have reduced dealer volume discounts when dealers do not comply with demands to eliminate competing brands from their dealerships.

Schnell adds that FEMA understands that the dealer's major supplier is what keeps his or her customers coming into that dealership. "Just the same, by far the majority of those deal-

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ers are independent businessmen who provide FEMA's members with their only commercially practicable access to the market.

"We understand the wishes of Deere and the other majors to have these independent dealers concentrate their sales efforts on their own manufactured equipment. We also understand there is a difference between 'wishes' and financial incentives for exclusivity, on the one hand, and coercing dealers into dropping other manufacturers lines, on the other," says Schnell.

During the fact-finding stage of the process, FEMA is seeking "real numbers" from manufacturers that have been harmed by the exclusionary efforts of the major suppliers. The association indicates that all hard evidence will be compiled by its certified public accounting firm and will be kept in strict confidence. AEI

CNH Surprises Wall Street with First-Quarter Performance

CNH, the parent company of Case IH and New Holland, surprised Wall Street when it reported a first-quarter EPS of 44 cents and revenues of $3.24 billion on April 23. According to Larry Schutts, vice president of stockwinners.com, analysts had been looking for 31 cents and $3.07 billion.

The Lake Forest, Ill., firm said in light of the quarter's results, it expects strong earnings and sales growth in 2007, and issued a profit forecast above analyst predictions.

CNH expects worldwide agricultural tractor retail unit sales to grow by as much as 5% while combine sales could be up about 10%.

"We are raising our 2007 EPS estimate to $2.25, from $1.90, to reflect better-than-expected results in the first quarter and stronger sales and margin expectations for both agricultural and construction equipment. We are raising our 2008 EPS estimate to $3.10, from $2.80, primarily to reflect a higher base year in 2007," UBS analyst David Bleustein said in a note to investors.

"Our Equipment Operations gross margin rose 2% compared with the first quarter last year. It is a good start toward achieving the aggressive targets we have for 2007," said Harold Boyanovsky, CNH president and CEO. "We are reaffirming our full year industrial operating margin target of between 7.6% and 8.4%."

Industry and company retail unit volumes showed particular strength in higher horsepower agricultural tractors and combines, driven by increased demand from cash-crop farmers in North America and the market recovery in Brazil.

Ag Equipment Net Sales: Farm equipment net sales increased 9% to $2.1 billion, compared with the prior year. Excluding currency variations, net sales were up 5%. Net sales, excluding currency variations, were up 43% in Latin America, 11% in Rest-of-World markets and 10% in Western Europe, but down 6% in North America.

Market Outlook: The company expects U.S. farm income in 2007 to remain at 2006 levels, bolstered by the increased demand for corn for ethanol. The North American market performed better than expected in the first quarter, for both over and under 40-hp tractors and for combines. For the full year, CNH expects North American retail sales of over 40-hp tractors to be flat to up slightly vs. 2006, while sales of under 40-hp tractors are expected to be lower than last year. AEI

CNH GLOBAL N.V.
REVENUES AND NET SALES
(in millions $)

Three Months Ended March 31

Net Sales	**2007**	**2006**	**% Change**
Agricultural Equipment	$2,117	$1,935	9%
Construction Equipment	1,124	1,015	11%
Total Net Sales	3,241	2,950	10%
Financial services	254	223	14%
Eliminations and other	(22)	(12)	
Total Revenues	**$3,473**	**$3,161**	**10%**
Net Sales			
North America	$1,291	$1,434	(10%)
Western Europe	1,049	833	26%
Latin America	322	229	41%
Rest of World	579	454	28%
Total Net Sales	**$3,241**	**$2,950**	10%

ESTIMATE OF WORLDWIDE RETAIL INDUSTRY SALES
(excludes India)

(First Quarter 2007 Estimated-Actual vs. First Quarter 2006 Actual)

	Worldwide '07	**NA '07**	**WE '07**	**LA '07**	**ROW**
Tractors					
<40 hp	NA	(4%)	NA	NA	NA
>40 hp	NA	6%	NA	NA	NA
Total Tractors	(4%)	1%	2%	17%	(11%)
Combines	12%	13%	(3%)	32%	21%
Total Tractors & Combines	**(4%)**	**1%**	**2%**	**19%**	**(11%)**
(Full Year 2007 Industry Unit Sales Forecast vs. Full Year 2006 Estimated Actual)					
Tractors	0-5%	0-2%	Flat	10-15%	0-5%
Combines	~10%	5-10%	~5%	~35%	5-10%

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AGCO'S First-Quarter Results Impressive, But Incremental Margins 'Pose Risk'

Despite AGCO's impressive results for the first quarter of 2007 — up nearly 14% compared with the same period in 2006 — some analysts are questioning the company's ability to keep up the pace in the longer-term.

On May 2, the Duluth, Ga.-based farm machinery manufacturer, the world's third largest manufacturer of farm machinery, reported income from operations increased $1.7 million resulting from the increase in net sales. First quarter gross margins were below 2006 due to brand and product mix. Unit production of tractors and combines for the first quarter was 5% above 2006 levels.

Bank of America analyst Seth Weber found AGCO's first-quarter results to be impressive, but sees its performance and rising stock values as riding on the strong overall performance of the the industry.

In his report to investors, Weber said, "AGCO's first-quarter report was impressive with better-than-expected revenue growth and margins. However, we remain on the sidelines with our Neutral rating, with shares trading at over 17x our revised 2008 EPS estimate. At that level, we believe the valuation reflects the attractive long-term fundamentals of the global ag cycle and AGCO's position as a near pure-play ag machinery manufacturer."

In his analysis, Bleustein writes: "The sales improvement was driven primarily by strength in South America (up 34%) and EAME (up 16%). We calculate incremental margins in the quarter were only 1%," says Bleustein.

"AGCO now expects its sales to increase 8-9% from 2006 (up 3-5%). Ignoring changes in forecast interest expense and taxes, we calculate that AGCO is expecting only 10% incremental margins on the increase in revenues.

"We believe weak 2007 incremental margins will cause some investors to question forecast 2008 EPS growth rates. At present, our 2008 earnings estimate assumes an incremental margin of 29%," says the UBS analyst.

Foothold in Brazil: Martin Richenhagen, AGCO chairman, president and CEO, in his report to shareholders, said that the performance of the company's South American operations was a strong contributor to AGCO's results.

"We saw sales growth in both our Massey Ferguson and Valtra brands, which when combined, have a leading market position in Brazil."

"Besides being a 'pure ag play,' AGCO is a 'Brazil play,' we gather," says Charlie Rentschler of Wall Street Access. "To be sure, Brazil's farm economy is recovering; first-quarter tractor sales ran at an annualized rate of 23,000, well above the 2005 nadir of 17,500."

Looking ahead, Rentschler says that the other major ag equipment makers are now seriously challenging the company's strong Brazilian position.

Current projections "presupposes that AGCO holds on to its 60% tractor market share," says Rentschler, adding Deere is opening a new tractor factory this summer and CNH appears on the rebound now that Fiat has turned around its auto group. "It also assumes that AGCO doesn't back-slide in the other major markets, Europe and North America, where it faces much tougher competition." AEI

AGCO Corp.

Segment Model – ($ in millions)

	2005	2006	2007E	2008E
Segment Sales				
North America	1,607.8	1,283.8	1,331.1	1,464.2
South America	648.5	657.2	796.6	892.2
EAME	2,988.7	3,334.4	3,604.1	3,892.4
Asia/Pacific	204.7	159.6	169.8	182.5
Total	**5,449.7**	**5,435.0**	**5,901.6**	**6,431.3**
Sales Growth				
North America	14%	-20%	4%	10%
South America	-19%	1%	21%	12%
EAME	4%	12%	8%	8%
Asia/Pacific	7%	-22%	6%	8%
Total	**3%**	**0%**	**9%**	**9%**
Operating Margin				
North America	1.1%	-2.9%	-0.6%	2.5%
South America	5.8%	6.9%	9.5%	10.0%
EAME	8.1%	8.4%	7.8%	8.6%
Asia/Pacific	17.1%	12.7%	9.4%	12.5%
Total	**6.1%**	**5.7%**	**6.2%**	**7.5%**

Source: Company documents and Banc of America Securities LLC estimates

FARM MACHINERY TICKER (AS OF 5/11/2007)

Mfr.	Symbol	5/11/07 Price	4/11/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$42.75	$36.24	$43.98	$20.76	NA	1.74M	3.90 B
Alamo	ALG	$26.35	$23.57	$28.37	$19.25	25.22	14,562	257.31 M
Art's Way	ARTW	$7.55	$7.50	$8.90	$4.87	14.35	7,263	14.93 M
Caterpillar	CAT	$73.81	$66.35	$82.03	$57.98	14.19	5.74 M	47.27 B
CNH	CNH	$43.46	$36.40	$45.79	$18.76	29.97	437,547	10.28 B
Deere	DE	$117.69	$108.43	$119.37	$66.90	16.21	2.61 M	26.70 B
Kubota	KUB	$45.06	$43.18	$59.35	$38.51	17.67	36,625	11.64 B

Former Montana Exec Rodney Miller Joins McCormick USA

McCormick USA confirmed on April 30 that former Montana Tractors CEO Rodney Miller had joined the company as vice president of sales and marketing for new products and communication. McCormick USA, headquartered in Norcross, Ga., is a division of ARGO Tractors and part of ARGO S.p.A., based in Italy.

In making the announcement, McCormick USA president, Simeone Morra, noted Miller's extensive experience in the tractor industry, which, he said, "will serve as a catalyst for the company's continued growth.

"Initially, he'll focus on intensifying our market penetration in compact tractors and to elevate our marketing efforts," said Morra.

Most recently, Miller served as Montana Tractors CEO, helping to launch the company in 2004. He guided the fledgling compact and utility tractor firm to sales of over $70 million and established a dealer network of more than 300 independent dealers throughout the U.S. and Canada.

Small Tractor Experience. Prior to that, Miller held key sales and management positions for tractor-makers Mahindra, Valtra and Long Agribusiness. Additionally, he holds first-hand dealer experience from past personal involvement in his family's ag equipment dealership in southern Illinois. He also maintains a row-crop farming operation of over 1,600 acres in the Benton, Ill., area.

A Good Move. One industry observer noted that Miller's appointment is a good move for McCormick, particularly as it makes its entry into compact tractor markets. "Their retailing to this market is probably not the best since it utilizes a traditional model, leaning heavily on Case dealers, and is accustomed to doing business in the traditional means. Retailing to this audience is completely different."

"With the addition of Miller's experience, McCormick is ready to make its move into the compact tractor market."

Miller's initial role will be to focus on all aspects of new product sales and marketing for both the McCormick and Landini tractor brands in the U.S. He will work directly with Ray Spinks, VP of global sales and with John Sargeant, VP of product marketing.

In response to *AEI*, Morra said, "We have been monitoring the compact tractor market since we introduced our larger tractor in U.S. The market has been growing and at same time the numbers of competitors has grown also. This growing market has made more pressing the request from our dealers to enter into the small tractor segment with the McCormick brand name."

With the addition of Miller's experience with the small tractor market, Morra indicates, that starting late this summer. McCormick is ready to make its move into the compact tractor market. This strategy may be particularly effective since Case IH's focus over the past 18 months has been to concentrate on cash-crop markets.

Implements Next. McCormick's CT Range includes 8 models of mechanical and hydrostatic ROPS tractors (28-47 hp). "We also will offer McCormick branded implements manufactured by a Wisconsin-based company," Morra added.

"For our current ag dealers, it will represent a nice opportunity to increase brand awareness and approach new customers," Morra told *AEI.* **AEI**

Auctio Dealer-to-Dealer Online Auction Program Discontinued

On May 9, the North American Equipment Dealers Assn. (NAEDA) announced that its board agreed to discontinue the NAEDA-endorsed Auctio program. According to the statement, the online dealer-to-dealer auction service failed to generate a broad enough base of wholesale assets for sale between dealers.

Watching the Action. Auctio held about a half-dozen ag equipment auctions online that typically attracted 250 registered dealers, says Auctio's Mick Michael, though most it seemed were just watching the action. He noted that ag equipment's sales ratio (units successfully sold) had not grown past 20%, which was under targets that parent-company Keeneland needed to see to continue financial support.

A big hurdle, he told *AEI*, was finding agreement among dealers on wholesale pricing and the variance in perception from one dealer to the next. "Dealer-to-dealer online auctions have succeeded in the auto business for 20 years, but the value is very definable, always within $100. While we've done better since starting our truck auctions with 30-40% sales ratios, ag products continued to be a problem. It was very difficult for dealers to agree on tractor and combine values and some dealers said their concerns surrounding overpaying and helping their competitor was enough to retard the concept."

From *AEI's* perspective, the concept had a lot to offer to dealers and kept the end-use customer out of the evaluation process, just like in the auto business. Michael did not say that the concept was incapable of succeeding in ag, though. While he said that the nature of the product brought some challenges, "we may have been a bit ahead of our time."

Recent Success. Interestingly, one of the recent successes was the introduction of new, factory-direct equipment auctioned on the site, some of which was destined for the Walterman Implement (Case IH), which filed bankruptcy after placing large orders. According to Michael, all the factory-direct units placed on the online auction sold immediately. From *AEI's* perspective, this raises an interesting question. Might this route offer some new means of releasing orders from the factory in which the highest bidder gets the unit? **AEI**

Buhler Second-Quarter Profits Fall as Tractor Sales Slip

Buhler Industries Inc., the Winnipeg-based manufacturer of high-powered tractors, reported on April 25 that its earnings during the second quarter of fiscal 2007 ending last March 31 fell by 38.8% on a 4.1% decline in sales of its equipment.

Buhler earned a lower $1.1 million (Canadian) during the second quarter of fiscal 2007 on sales of $56.7 million. One year earlier, it netted a higher $1.8 million from revenue of $59.2 million.

Sales Down. During the first half of fiscal 2007, it earned a much narrower $1.2 million on sales of $85.1 million. This compares to a year-ago profit of $3.5 million on a wider turnover of $98.5 million.

Improving Conditions. Despite its second-quarter results, Ben Cherniavsky, analyst for Raymond James Equity Research, raised both his 6-12 month target price on Buhler as well as their rating to "market perform" from "underperform" based upon improving tractor sales and recent restructuring initiatives undertaken by management.

Cherniavsky, in his report to investors, added that "North American agricultural prices, including corn, soybeans, and wheat, have surged dramatically in recent months, spurred largely by ethanol-induced supply concerns. Albeit less of an immediate factor, but certainly not one to be understated, demand from emerging markets is also putting increasing upward pressure on grain prices.

Bullish Outlook. "Taken together," he said, "these two structural trends foretell a significant long-term tightening in the agricultural supply chain, and an associated long-term escalation in commodity prices. The corollary of this bullish outlook is a forecasted cash windfall for farmers that we expect will spur robust demand for new farm equipment and related services." AEI

Art's-Way Reports Mixed First Quarter Results

In reporting its first-quarter results on April 17, Art's-Way Manufacturing of Armstrong, Iowa, said its newest acquisition, Art's-Way Scientific, acquired in August 2006, provided much of the period's financial improvement, compared with the first period of 2006 because its numbers were not included with last year's report.

During the first quarter, the company's consolidated net sales increased 23% to $5.275 million as compared to $4.302 million for 2006. Art's-Way Scientific contributed net sales of $950,000.

The company had revenues totaling $3.273 million for the first quarter, compared to $3.629 million for the same period in 2006. This decrease was due to a reduction in sales of blowers to its OEM dealers. Another division, Art's-Way Vessels, had revenues totaling $1.052 million for the quarter, compared to $674,000 for the same period in 2006.

The firm's gross profit decreased in the quarter to 28% as compared to 32% in 2006. The decrease was due primarily to the addition of Art's-Way Scientific. "When we purchased Art's-Way Scientific we also purchased its backlog and had to honor pricing from the prior owners," the company said.

Art's-Way Scientific's gross profit was 20% for the first quarter of 2007. Art's-Way Manufacturing's gross profit was 30% while Art's-Way Vessels was 32%. AEI

Titan International Posts Record Revenues in First Quarter, Implements Price Increase

Specialty tire maker Titan International reporting its first-quarter financials on April 27, posted all-time highs for revenue as it reached $226.3 million for the period. Revenues for the quarter grew 24%, driven by higher agriculture sales as well as the Continental mining tire acquisition. Titan management also said that it implemented a 6% aftermarket tire increase on orders taken April 1.

OEM farm equipment business is beginning to pick up while demand for mining tires remains extremely strong, according to Monica Logani, analyst for Wall Street Access.

First-quarter gross margins were 12% compared to 17% for the same period in 2006. Without retooling, expense gross margin would have been 15%. "While the reported gross margin was less than our estimate, we are confident that it was simply a mix issue," Logani said in a note to investors. "We expect margins will expand meaningfully sequentially in the second quarter and year-over-year in the back half of the 2007."

Revenue for agricultural tires during the quarter grew 8.8% to $135.3 million compared to $124.4 million in 2006.

Logani says that management is reporting that business from the large OEMs is beginning to pick up. While compact tractors are sold out for the year, the large combines and 4WD tractors are running strong and are expected to get stronger throughout the year.

"Deere recently stated that it is extending its production schedule to 7 days/week in anticipation of increased demand by farmers. We note that the last major upgrade cycle for the big combines and tractors was in 1997. We estimate Freeport, Ill., contributed $65 million in the quarter while the base business contributed $70 (vs. $60 million in 2006), which is 30% less then the amount booked in 2004," says Logani. AEI

China's Ag Equipment Purchases Projected to Double in '07

Modernizing farming in China has become a high-priority target in the country's 5-year plan to boost industry and agricultural development, according to the China Assn. of Agricultural Machinery Manufacturers (CAAMM).

Given this new emphasis, agricultural machinery purchasing power in China is forecast to double in 2007.

"We expect that in 2007 the Chinese government will double the purchasing allowance of agricultural machinery, taking it to about $156 million," said Gao Yuanen, vice chairman of China Machinery Industry Confederation and chairman of CAAMM. "This expected increase is a positive sign for the agricultural machinery industry and is a significant business and investment opportunity for Chinese and foreign companies alike."

Parts and Components. Last year, annual sales of agricultural machinery produced by large manufacturers reached nearly $17 billion, up more than 25% from the previous year.

According to CAAMM, Chinese manufacturers experienced a booming farm equipment spare parts and components business as the rapid mechanization of Chinese agriculture has involved a 15% increase in utility-type tractors in the last year alone.

Over 300 companies are supplying components for both domestic and western farm equipment. These manufacturers grossed nearly $2 billion in 2006, a 30% increase compared to last year. AEI

Four Cat Dealers to Single-Source AGCO Sprayers in Midwest

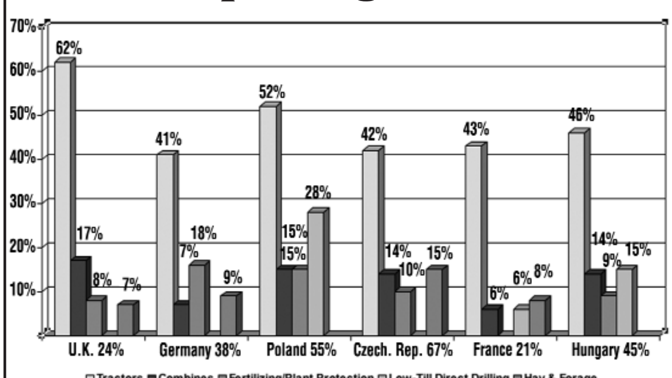
AGCO Corp. Duluth, Ga., announced on April 26 that it is restructuring its RoGator and TerraGator distribution strategy to improve its sprayer business in North America. Beginning July 1, four Caterpillar dealers that currently distribute AGCO's Challenger product line will assume responsibility for new machinery sales of TerraGators and RoGators. Already providing after-the-sale parts and service support, Altorfer Inc., Butler Machinery, NMC and Ziegler Ag Equipment will become the single source for new machinery sales in the prime Midwestern agricultural markets of Illinois, Iowa, Nebraska, North Dakota, South Dakota, Minnesota and Wisconsin.

"We made the decision to implement this strategy for two very important reasons — market focus and customer support," says Bob Crain, senior vice president and general manager, North America. "We will now be able to provide greater focus on the commercial market segment and the large grower market segment. And, more importantly, we will tap into the strength of the Cat dealers — their complete service and support capabilities."

Some industry observers are questioning the move. Said one, "AGCO announced that it will divest itself of its AgChem sales force and move sales to their local Cat ag dealers. The reason? Falling sales and loss of market share. When this same thing was done with parts and service, parts sales plummeted, customers revolted, and market share fell drastically. So let's do it again?"

Currently, RoGators and TerraGators are sold through a direct sales model, while select Cat dealers provide parts and service. The company's intent is to transition the RoGator and TerraGator sales team to the four dealers. AEI

European Farmers' Spending Plans



A survey of European farmers by the German publication *agrifuture* shows that farmers are more willing this year to invest in equipment. Overall, Hungary and the Czech Republic are the most optimistic, while farmers in the U.K. appear the most skeptical about the near term. Percentages shown next to the country represent equipment investments as a proportion of total farm spending. AEI

Despite Sales Gain, Kubota's Fiscal 2006-07 Profits Fall 5.6%

Kubota Corp., based in Osaka, Japan, reported on May 11 that its earnings during all of fiscal 2006-07 fell by 5.6% despite a 5.8% sales increase.

Kubota earned a narrower $647.9 million during January-March 2007 on sales of $9.55 billion. One year earlier, it gained a wider $676.5 million. Kubota said farm machinery revenue increased to $5.35 billion from $4.94 billion.

The firm said sales of farm tractors and construction-type machinery increased in North America, but did not offer any other details.

Kubota predicted its earnings during all of fiscal 2007-08 ending this March 31 would be relatively unchanged on a 1.1% sales increase as wider overseas revenue is expected to offset lower domestic sales. AEI

Strong April Sales Positive Sign for Equipment Makers

Strong North American sales of row-crop (>100 hp) and 4WD tractors in April pushed ag equipment sales slightly above industry forecasts, and this, according to Baird analyst Robert McCarthy, is a positive sign considering most observers were calling for a "flat" sales year, at best.

"North American retail tractor sales were strong in the seasonally most important month of the year. Row-crop and 4WD tractor sales increased double-digits year-to-year in April, while combine sales declined 25%," says McCarthy. "Given improved year-to-year sales comparisons in the critical March/April prime selling season, year-to-date large tractor sales are now tracking modestly above industry forecasts."

✘ North American retail sales of row crop tractors (2WD; >100 hp) increased 14% year-to-year in April after increasing 9% in March. Row-crop tractor sales are now up 4% year-to-date. April's retail sales have contributed 13% of annual sales on average during the previous 5 years.

✘ North American retail sales of 4WD tractors were up sharply year-to-year in April, increasing 40% after increasing less than 1% in March compared with March 2006. 4WD tractor sales are now up 7% year-to-date. April is the seasonally most important month for 4WD tractor sales as well, contributing 17% of average annual sales over the past 5 years.

✘ Retail sales of combines declined 25% year-to-year in April, down from March's 1% increase. April is of average seasonal importance for combine sales, contributing 8% of annual combine sales on average.

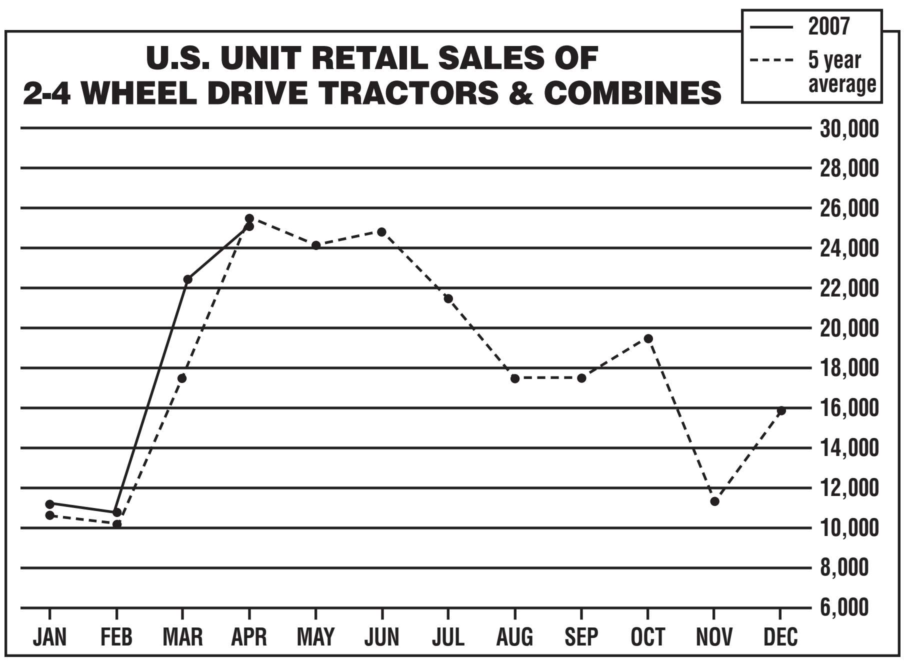
✘ Dealer inventories of row-crop tractors, 4WD tractors and combines all declined year-to-year on an absolute basis in March, with row-crop inventories down 8% year-to-year, 4WD inventories down 6%, and combine inventories down 34%. On a days-sales basis, industry inventories increased year-to-year for both row-crop (127 vs. 120) and 4WD tractors (109 vs. 91), and declined year-to-year for combines (51 vs. 71). **AEI**

APRIL U.S. UNIT RETAIL SALES

Equipment	April 2007	April 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	March 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	13,627	14,948	– 8.8	34,814	37,620	– 7.5	66,853
40-100 HP	8,374	7,860	+6.5	24,849	15,026	+8.6	39,726
100 HP Plus	2,620	2,230	+17.5	7,396	6,947	+6.5	5,844
Total-2WD	24,621	25,038	–1.7	67,059	67,453	– 0.6	112,423
Total-4WD	518	346	+49.7	1,247	1,174	+6.2	868
Total Tractors	25,139	25,384	–1.0	68,306	68,627	– 0.5	113,291
SP Combines	312	414	–24.6	1,466	1,416	+3.5	880

APRIL CANADIAN UNIT RETAIL SALES

Equipment	April 2007	April 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	March 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,235	956	+29.2	2,522	2,002	+26.0	6,043
40-100 HP	753	651	+15.7	1,915	1,926	– 0.6	3,356
100 HP Plus	483	494	– 2.2	1,082	1,198	–9.7	1,607
Total-2WD	2,471	2,101	+17.6	5,519	5,126	+7.7	11,006
Total-4WD	164	141	+16.3	300	274	+9.5	224
Total Tractors	2,635	2,242	+17.5	5,819	5,400	+7.8	11,230
SP Combines	73	96	– 24.0	237	264	– 10.2	464



—Assn. of Equipment Manufacturers

Emphasis on 'Asset Management' Yields Results at John Deere

Deere & Co.'s ongoing emphasis on asset management is yielding positive results, particularly in the areas of trade receivables and inventories. Some believe it is creating the new business model that other manufacturers will copy in the near future.

At the end of the first quarter of 2007, the company's trade receivables and inventory stood at $5.672 billion, or 28% of previous 12-month sales, compared with $5.911 billion, or 30% of sales a year ago.

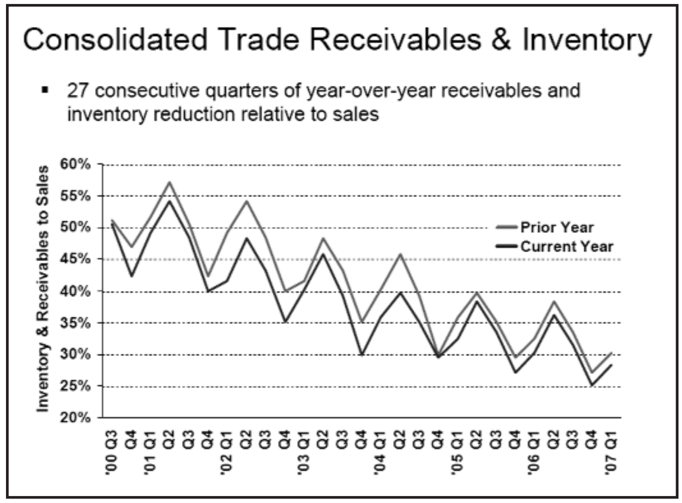
Ken Golden, director, strategic public relations for Deere & Co., told *AEI* that, to understand John Deere's focus on managing trade receivables and inventories, one must recall CEO Bob Lane's directive to produce greater economic value for shareholders. When Deere and Lane first declared this aspiration, the company was considered asset heavy and margin lean.

In the past, the generally accepted business model for heavy equipment manufacturers was based on a "build-to-forecast" philosophy. Therefore, companies like Deere had significant dollars tied up in assets and inventories that could be better used for investment in research and development, growth and job opportunities. Deere's focus on the customer is meant to understand what features help John Deere customers be more productive and profitable. The company then can design technology into its machines that will deliver these features. Deere has invested to meet the demands of the customer, while significantly changing its operations to a "build-to-demand" operating model by investing in factory efficiency.

How Deere's Doing It. In 2006, trade receivables and inventories declined by a further $258 million and, through year-end, had fallen in relation to sales for 26 consecutive quarters vs. the same quarter of the prior year."

Lane attributed much of Deere's success in controlling assets to investments in improved efficiency and the adoption of related operating processes. As an example, the $140-million multi-year redevelopment project at the Waterloo, Iowa, tractor factory reduced floor space by some 2 million square feet and helped achieve major reductions in manufacturing cost, cycle time and inventory levels. Similar efforts, though smaller in scale, are progressing or have been completed at other major factories worldwide.

The firm is also accelerating implementation of the Deere Production System (DPS) to make its factories more efficient and helps keep production rates in step with retail-order patterns.



Golden adds, "Because Deere has made these significant changes, the company has been successful in moving from a build-to-forecast business model to one that is based on build-to-demand concepts. With significant investments, we have adopted lean manufacturing and created flexibility in building products, allowing the company to meet the market demand for equipment, but not exceed it."

What It Does for Deere. Lane noted that such actions helped drive earnings to a record high for a third consecutive year. "Cash flow from operating activities improved to $1 billion in 2006. With these dollars, Deere has been able to invest in growth while reducing the share count through buybacks, as well as increasing dividend payments. More than 30 million shares have been repurchased since early 2004 and the quarterly dividend rate has been doubled."

What it Means to Deere Dealers. "As the company has changed its business model, so has the dealer," says Golden. "Dealers are sophisticated independent businessmen and women who understand that true economic value will be created by changing the traditional ways of build-to-forecast and adopting the build-to-demand philosophy and resulting lower level of field inventories." **AEI**

Is a TISCO-CNH Hook-Up in the Offing?

Tractor Implement Supply Co. (TISCO), a major aftermarket parts firm, is rumored to be in talks with Case IH-New Holland (CNH) to explore forming a marketing partnership. These talks have been "off and on" for the past year or so, but appear to be heating up.

The joint marketing effort could be a boon for both companies. TISCO's nationwide sales force could be utilized in the marketing of not only their own products but also parts from CNH. It appears that this association may be patterned after the successful partnership of A&I Products and John Deere. **AEI**

Is Deere Bringing Back Small Drills?

World on the street is that John Deere is planning to reintroduce a line of small drills, ranging from 10-13 feet. Deere had exited the market a few years ago when it discontinued producing its 750 model.

Speculation is that the company will introduce a new line to be marketed through either its Frontier brand or possibly through the recently acquired Conservapak.

In an email to *AEI*, a Deere spokesmen said, "We'll let you know soon, Frontier will be introducing some new products." **AEI**