

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Titan Adds 7 Stores
- AGCO, CNH Sales Up
- Brazil Sales Rising

## Speculation, Confusion Continue to Surround Farmtrac

When Farmtrac held a salvage auction of parts, operable tractors and scrap metal at its Tarboro, N.C., plant on April 25, it appeared to be a sure sign that the tractor maker wasn't planning to be back in business anytime soon. That's only speculation, but it's all that the people involved have to go on.

"It's like Escorts walked out the door and left the lights on," is how one industry observer describes the situation at Farmtrac, that was forced into receivership in February.

"It's just a screwed-up mess," he says. "I've never seen anything like this. Nobody can make contact with anyone. It's one of the strangest things I've ever seen," says the tractor industry veteran who requested anonymity.

In the meantime, little more than speculation and confusion continue

to surround Farmtrac and its dealers are left holding the bag.

**No Near-Term Answers.** Textron Financial Corp., its biggest secured lender, forced Farmtrac into receivership in February. Since then, there's been little or no communication from Farmtrac executives, and others familiar with the situation say they can only speculate as to what will happen next.

Textron told *AEI* that it does not comment on issues involving its customers.

Escorts Ltd., a holding company headquartered in India, had a controlling interest in Farmtrac at the time Textron took legal action seeking more than \$13 million owed it by Escorts. The move left 280 Farmtrac dealers in business limbo.

Reports from the *Daily Southerner* newspaper in Tarboro and discussions with others close to the situations indicate that while Textron is attempting to work with Farmtrac dealers and suppliers, no near-term solutions are forthcoming.

Jim Marrow, the court-appointed receiver who is overseeing the sale or liquidation of Farmtrac, commented to the newspaper that he is "doing everything possible to create a best-case scenario."

According to the paper, "Marrow assumed receivership on February 27 to ensure payment of debt to creditors. As the present owner of Farmtrac, part of his job is to repair the company's reputation and prevent the embattled firm that approaches \$50 million

*Continued on page 2*

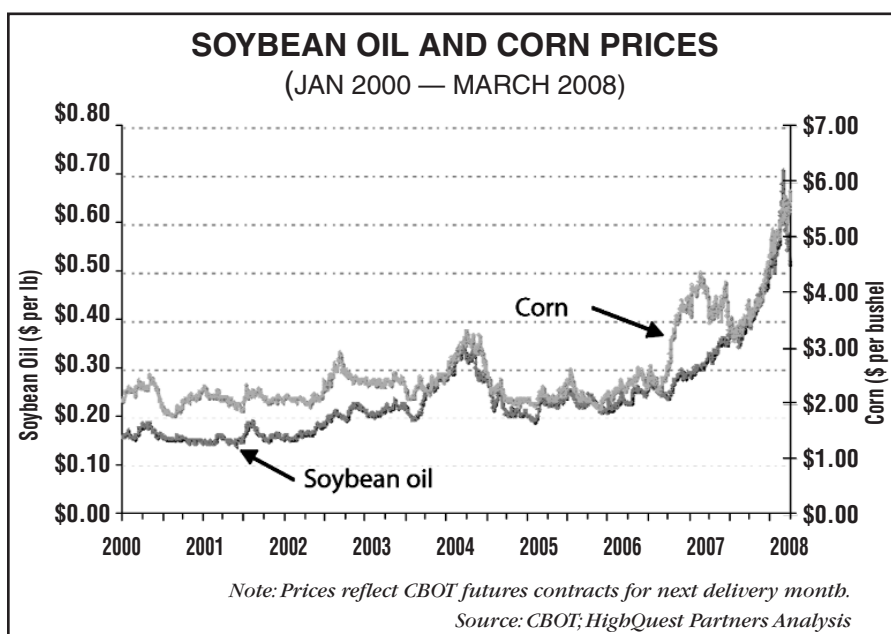
## \$100+ Oil is the 'Real' Driver in Food-for-Fuel Debate

While corn ethanol is portrayed as the villain in the current debate pitting corn as a fuel vs. food source, what appears to be getting by the headline writers these days is the price of corn — and soybeans for that matter — is being dragged along by the rapidly escalating price of oil.

This is the assertion of Hunt Stookey, managing director at HighQuest Partners, a strategic advisory and management firm in Topsfield, Mass., in the white paper entitled "Pricing Dynamics: How \$100 Oil Really Gave Us \$6.00 Corn."

"Biofuels, particularly U.S. corn-based ethanol and soy-based biodiesel, are under increasing attack as a major cause of global food infla-

*Continued on page 8*



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in total debt' from perishing."

**Hoping to Sell.** Marrow says that negotiations are ongoing with two or three potential buyers in the U.S. and one outside the country. He says there is "50/50 chance" he'll find someone to purchase the company.

A former employee who spoke with *AEI*, but who did not want to be identified, is also hopeful the company will get back on its feet.

"It will survive. Someone who has the financial and technical capability will take it over and we'll be back in business again," he says.

But others close to the situation express serious doubts about anyone taking on the "Farmtrac mess" at this point.

"They'd have to shed most of the debt in bankruptcy before anyone would consider acquiring the company. The \$12 or \$13 million they're talking about is probably the tip of the iceberg because of warranties and other liabilities from the equipment already shipped," says one industry insider.

"They've already got the revenues from the equipment sold, so there's nothing left for anyone to generate additional revenue. It's going to be a difficult process."

**Parts, Service & Financing.** According to the former employee that *AEI* spoke with, a skeleton crew is currently shipping parts, but no new components are coming in from either India or Korea. "They are working to get this back into action," he says.

While he hasn't seen any correspondence, he also says that Textron has set up a warranty system. "The tractors being sold now are under warranty, which is pretty similar to what we had — 1 year bumper to bumper and 2 years on the drivetrain."

He also added that dealers can get retail financing, but said he wasn't privy to the details of the plan.

He says that there are 900 tractors in Tarboro, but only 100 are fully assembled. "The rest need to be assembled and they are working to get that done. Of course, you need a lot of components and most come from India and Korea. I think they're pretty close in getting some assembly going again."

**Suppliers in Same Boat.** According to a February 27 court docu-

ment, LS Cable, the Korean tractor maker that supplied tractors to Farmtrac, is owed \$11,096,879, of which more than \$8 million was past due.

The *Daily Southerner* reported that Jae-Yong Sim of Korea, a senior manager with LS Cable, attended a sale at Farmtrac on April 25.

Sim vowed that LS Cable is "seriously considering" how his corporation can remedy the situation. **AEI**

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## Ag Growth Sales Rise to \$35.4 Million

Ag Growth Income Fund, the Winnipeg, Manitoba-based manufacturer of portable and stationary grain handling, storage and conditioning equipment, reported on May 9 that sales for the 3 months ended March 31 reached \$35.4 million compared with \$28.2 million for the same period in 2007. Net earnings for the peri-

od were \$1.9 million, compared to \$5.6 million in 2007. The company says results for the quarter were in line with management expectations as an increase in sales was offset by costs related to both the integration of the Twister product line and to the Westfield capacity improvement initiative. **AEI**

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## Brazil Tractor and Combine

### Sales Accelerating

The most recent report from the Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA) in Brazil shows that tractor and combine sales in April are continuing to rise.

During the month, total tractor unit sales reached 3,638, up 52% compared to the same period a year ago. Sales of combines were 286, a rise of 109% on a year-to-year basis.

Ann Duignan, analyst for Bear Stearns Co., said that April's increase in tractor sales in Brazil was likely supported by the start of the sugarcane season and the 24 new mills that came on stream over the past year.

"Tractor demand remains strong as about 100 new tractors are required per sugar mill. With 32 new mills expected to come on stream over the next 12-18 months, we

expect this demand to continue and we remain bullish on the sector."

While combine sales rose by 109% during April, Duignan sees this market being "constrained by weaker soybean profits on the back of the strong Real."

**How U.S. Manufacturers Stack Up.** In comparing how U.S.-manufactured equipment sales stood in April, the analyst showed:

#### Total Brazilian Tractor

- Sales in April .....+52%
- John Deere Tractor Sales.....+103%
- CNH Tractor Sales.....+64%
- AGCO Tractor Sales .....+41%

#### Total Brazilian Combine

- Sales in April .....+109%
- John Deere Combine Sales..+150%
- CNH Combine Sales .....+119%
- AGCO Combine Sales.....+12%

**AEI**

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## CNH Reports Record Revenue and Income, But Production Issues Plague Margins

Despite what one analyst calls a “sloppy operating performance,” on April 24, CNH Global N.V., parent company of Case IH and New Holland farm and construction machinery, reported record first-quarter 2008 revenues of \$4.4 billion — up 26% compared to the same period last year, and net income of \$112 million — up 18% vs. January to March 2007.

CNH’s worldwide net sales of agricultural equipment increased to \$2.93 billion, up 38% (including 8% related to currency), compared with the prior year.

Net sales were up 102% in Latin America (15% related to currency), up 37% in Western Europe (12% related to curren-

*“The problems are largely driven by internal inefficiencies, which can be improved with better forecasting.”*

cy), up 23% in North America (3% related to currency), and up 39% in Rest-of-World markets (6% related to currency).

The company reported that worldwide retail unit sales of tractors were up 1%, while combines sales grew 40%. Industry unit sales were up in every region of the world, except for under-100 HP tractors in North America.

**Supply Chain Problems Persist.** This quarter CNH continued to experience substantial supply chain and production inefficiencies that hampered margins, according to Ann Duignan, analyst for Bear Stearns Co.

“Air freighting components, shortages, scheduling issues, among other issues, caused ‘a lot of pain’ during the quarter. These problems seem to be largely driven by internal inefficiencies and supply chain management, which can likely be improved with better forecasting.”

She also noted concerns about CNH’s New Holland brand being a drag on company earnings. “Margins were

<b>CNH GLOBAL — REVENUES &amp; NET SALES (IN MILLIONS \$)</b>			
	2008	2007	Change
<b>Revenues</b>			
<b>Net Sales</b>			
Ag Equipment	\$2,925	\$2,117	38%
Const. Equipment	1,174	1,124	4%
<b>Total Net Sales</b>	<b>\$4,099</b>	<b>\$3,241</b>	<b>26%</b>
Financial Services	316	254	24%
Other	(50)	(22)	
<b>Total Revenues</b>	<b>\$4,365</b>	<b>\$3,473</b>	<b>26%</b>
<b>Net Sales</b>			
North America	\$1,290	\$1,291	0%
Western Europe	\$1,385	1,049	32%
Latin America	595	322	85%
Rest of World	829	579	43%
<b>Total Net Sales</b>	<b>\$4,099</b>	<b>\$3,241</b>	<b>26%</b>

weak in a strong ag environment, highlighting our concerns about the New Holland brand in particular,” Duignan says.

Overall equipment gross margins were below Bear Stearns’ expectations at 17.1% vs. 18.4% and operating margins were 6.4% vs. 7.2%.

On a positive note, Duignan added, “CNH delivered tremendous performance in ag equipment with sales up 38% and operating profit up 77%.”

**Outlook for 2008.** For the full year, CNH says it expects the agricultural equipment market to remain above 2007 record levels with strong growth of high horsepower tractors and combines in North America and continued expansion in Western Europe, Latin America and Rest-of-World markets.

**AEI**

<b>FARM MACHINERY TICKER (AS OF 5/12/2008)</b>								
Mfr.	Symbol	5/12/08 Price	4/10/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$58.36	\$64.23	\$71.95	\$36.66	20.08	1.79 M	5.35 B
Alamo	ALG	\$22.80	\$21.39	\$26.98	\$16.77	18.36	20,765	223.35 M
Art’s Way	ARTW	\$21.62	\$22.72	\$39.75	\$7.50	18.45	22,317	42.94 M
Caterpillar	CAT	\$83.82	\$75.71	\$87.00	\$59.60	15.00	6.62 M	51.53 B
CNH	CNH	\$44.65	\$56.00	\$70.00	\$41.01	18.40	640,808	10.60 B
Deere*	DE	\$89.37	\$86.91	\$94.89	\$56.50	20.65	5.04 M	38.97 B
Kubota	KUB	\$36.75	\$31.87	\$45.80	\$28.34	13.41	74,217	9.47 B
Titan Mach.**	TITN	\$20.66	\$22.11	\$24.50	\$11.50	31.02	396,062	277.73 M

\*On November 14, 2007 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.

## AGCO First Quarter Exceeds Expectations, But Analysts Don't Like Full-Year Forecast

While AGCO reported record sales of \$1.8 billion (vs. \$1.3 billion in first quarter '07) and net income of \$0.63 per share (vs. \$0.47 consensus and \$0.26 vs. first-quarter last year) for the first quarter of 2008, its outlook for the remainder of the year didn't live up to analysts' expectations. They were looking for a 2008 EPS of \$3.26, but AGCO projected only \$3 to \$3.15.

"AGCO indicated on the conference call that the back-half of '08 could be weaker than we'd figured," said Charlie Rentschler of Wall Street Access in a note to investors. "Nevertheless, we think management's guidance errs on the light side and, given the strong first quarter, we are taking our estimate up to \$3.25 from \$3.00, which means no significant change to our cumulative estimates for the rest of '08. We are also establishing a 2009 earnings forecast of \$4.15 per share."

**By Any Other Measure.** Besides its "light" forecast for earnings during the remainder of the year, AGCO's financials for the start of 2008 were outstanding by most measures.

Excluding the impact of currency translation of \$173.9 million, net sales were up 21% vs. '07. Net income for the first quarter rose to \$62.3 million vs. \$24.5 million for the same period a year earlier. Income from operations increased \$48.6 million compared to the same period in 2007. Unit produc-

	2007	1Q08	2Q08E	3Q08E	4Q08E	2008E	2009E
<b>Sales (Geographic)</b>							
North America	1,488.1	367.7	394.5	350.8	491.3	1,604.3	1,796.9
South America	1,090.6	321.4	372.5	382.4	414.7	1,491.0	1,699.7
Europe	4,067.1	1,045.5	1,365.1	1,015.5	1,493.7	4,919.7	5,141.1
Asia, Middle East	182.3	52.0	55.8	69.0	76.4	253.2	288.7
<b>Operating Profit (Operating Income by Region)</b>							
North America	(35.7)	(13.0)	(3.1)	(14.3)	(19.1)	(49.4)	18.0
South America	101.3	34.4	39.7	46.7	39.1	159.9	187.3
European	398.0	97.4	163.7	82.7	140.8	484.6	516.7
Asia, Middle East	19.9	5.8	7.3	10.5	11.3	34.8	39.7

tion of tractors and combines during the period rose 25% above 2007 levels.

**Sluggish NA Sales.** The other knock on AGCO's first-quarter performance resulted from its sluggish

*"We think management's guidance for the rest of the year, errs on the light side, given the strong first quarter. . ."*

North American sales. It reported double-digit growth in each of its four geographical segments. Its largest percentage increase (44%) came from South American sales. Sales in its Asia/Pacific region grew by 28%. This was followed by a 20% sales rise in

EAME. But North American sales during the quarter rose by only 10% and analysts view this as a longer-term weakness for the company.

Ann Duignan of Bear Stearns, reported to investors that despite better than expected quarterly results, North American sales continue to be a challenge for AGCO.

"The company generated revenue that was 12% higher than our forecast and net income that was 43% higher than our forecast. Management raised its 2008 sales guidance range to +20-22% year-to-year from +11-13%. But North America continues to lose money and widened its net loss margin to -3.5% vs -2.2% a year ago, which is largely driven by currency translation."

In his analysis, Rentschler adds, "Essentially, AGCO is a European company and it derived 78% of its operating profits from EAME in the first quarter. We see it has limited room from here to grow either market share or profit margin, given strong competition."

"When we look at either South or North America (where we used to think there was huge upside), we're not sure AGCO can derive big increments of profit. In South America, we feel the company is likely to lose share to Deere and CNH Global. In North America, the Challenger program — selling private-branded farm machinery through select Caterpillar dealers — simply hasn't taken hold, with Deere and CNH gunning for it on every large farmstead." **AEI**

### State of Ag Delivered to Investors in June

Wall Street Access and *Ag Equipment Intelligence* are co-sponsoring a special "Ag Day" — or the *Corn Belt Comes to Manhattan* — for investors in New York City on June 17. With a theme of "The Outlook for U.S. Agriculture: Problems & Opportunities," the agenda offers a unique perspective of top-performing farmers, dealers and equipment suppliers who will inform and educate the investing community about the state of agricultural markets.

Among the speakers at the event are Charlie Rentschler, Wall Street Access; Frank Lessiter, *No-Till Farmer*, *Farm Equipment & Ag Equipment Intelligence*; Ken McCauley, Kansas farmer; Steve Koles, Hemisphere GPS; Marion Calmer, Illinois farmer; Maurice Taylor, Titan International; David Meyer, Titan Machinery; Dean Fehl, Iowa farmer; and George Russell, Ingersoll Tillage Group.

For more information, contact Wall Street Access at 888/942-2010. NOTE: Attendance is limited only to financial companies investing in publicly traded companies. **AEI**

## Titan International Signs Pact with Deere, To Buy Back European Subsidiary

Titan Tire Corp., a subsidiary of Titan International Inc., Quincy, Ill., announced on April 21 that it has signed a 3-year agreement to supply farm tires to various John Deere affiliates. The company also appears on the verge of buying back a European subsidiary it sold off 4 years ago.

The value of the agreement with John Deere, which is Titan's largest customer, should exceed \$100 million during the first year, according to Titan Chairman and CEO Maurice M. Taylor Jr.

**Buy Back in the Offing.** A report from Europe indicates that Titan is lining up to buy back the European subsidiary it sold 4 years ago to help balance its finances.

In a statement to the London Stock Exchange, where Titan Europe has been listed on the Alternative Investment Market (AIM) since 2004, the company confirmed preliminary discussions concerning a potential offer by Titan International to acquire

all outstanding shares of the European company.

Titan already owns 17% of the shares; most of the remaining stock is held by investment funds. The potential offer is being scrutinized by Titan Europe's independent directors on shareholders' behalf as three of the company's directors are also directors of Titan International — including Chairman & CEO, Taylor, who is non-executive chairman of Titan Europe's board and the European company's CEO Mike Akers.

The UK-based business has seen significant expansion as a public company, acquiring a rim manufacturing and distribution business within and beyond Europe, as well as an Italian group manufacturing track frame components.

Last month, it reported interim results of revenues up 4.8% to the equivalent of \$764 million, compared with \$212 million in 2004 at today's exchange rates, and net profit for

2007 up more than 85% to \$28 million.

Titan International has also reported positive results, including full-year sales of \$837 million, up 23% from the year prior, and a gross profit of \$84.1 million vs. \$72.8 million in 2006. The net result for the year was a loss of \$7.2 million, however, due largely to a non-cash convertible debt charge of \$13.4 million, compared with a net profit of \$5.1 million for the year prior.

**Strong First Quarter.** While Titan's sales rose 12% during its most recent reporting period, Charlie Rentschler, analyst for Wall Street Access, reported that, "higher raw material costs and training expenses were a drag on gross margin that rose only slightly to 12.8% from 12%."

The increased sales also pushed the tire maker's EPS to \$0.29 from a loss of \$0.12 during the same period a year ago. The analyst says the market was expecting \$0.33. **AEI**

## Krone's Strategic Focus Paying Off

Bernard Krone GmbH, the hay and forage equipment specialist based in Spelle, Germany, says its decision 11 years ago to focus on hay and forage machinery is paying big dividends.

The company has seen worldwide sales of its specialty machinery grow 35% in 2006, 54% in 2007 and are looking toward a 60% increase in 2008. During the sales period 2006-07, sales of Krone machinery worldwide reached nearly \$600 million.

According to Krone North America's COO, Gary Thompson, much of the credit for the company's growth goes to the German company's R&D investment and enormous growth in North America.

**Focused R&D.** That R&D investment has resulted in the development of several breakthroughs for Krone. In 2000, the company previewed its BigX self-propelled forage harvester and row-independent corn head. In 2004, the company introduced the BigPack 1270 multi-bale machine.

More recently, Krone rolled out its BigX 1000, a 1000-HP self-propelled forage harvester.

Other "firsts" included the EasyFlow, the world's first camless forage pickup system and AutoScan, a crop maturity sensor.

**Strong U.S. & Export Markets.** To support its more than 320 dealer-

ships in the U.S. and Canada, last year Krone North America moved its headquarters to 133,000-square foot building in Memphis, Tenn.

During 2006-07, nearly 68% of Krone's production was exported. Its strongest end-use markets include North America, France, the CIS, Austria and the Netherlands. **AEI**

### MARKET SHARE & VALUE OF HAY AND FORAGE EQUIPMENT PRODUCED IN EUROPE

Manufacturer	Country	Market Share	(millions of euro)
Krone	Germany	16%	230
Claas	Germany	15%	220
Kuhn	France	15%	220
Kverneland	Netherlands	15%	220
Pottinger	Austria	9%	137
Welger	Germany	4%	53
Fella	Germany	3%	50
JF/Stoll	Denmark	3%	44
Others		20%	293
			1,467

Source: Schatzung W. Kutschenreiter

## Titan Machinery's Quarterly Revenues Up 61%, Acquires 7 Stores in Iowa and Nebraska

Titan Machinery reported on April 28 that sales of equipment, parts and services in the fourth quarter rose 61% for the fourth quarter and year ended January 31. The company also announced the acquisition of Quad County Implement, Inc., in Blairstown, Iowa, and Mid-Land Equipment with 6 stores in Iowa and Nebraska.

Based in Fargo, N.D., Titan Machinery is one of the

*“The 6 Mid-Land stores are contiguous to existing Titan Machinery stores in South Dakota and strategically overlay the existing 9 Titan Case IH ag locations in Iowa. . .”*

largest full-service dealer networks of agricultural and construction equipment in North American and currently operates 39 dealerships in the upper Midwest. The company primarily handles Case IH and New Holland brands and is one of the few publicly held dealer networks in the U.S.

**Equipment Parts & Service Up.** Total revenue for the period increased to \$135.2 million for the quarter from \$84 million for the same period of 2007. All three of its main revenue sources — equipment, parts and services — contributed to this period-over-period revenue growth. Equipment sales were \$112.5 million, up 66% (vs. \$67.9 million). Parts sales increased 56% to \$13.2 million (vs. \$8.4 million). Revenue generated from services increased 17% to \$6.4 million in the quarter (vs. \$5.5 million).

The company's gross profit margin increased to 17.4% in the fiscal fourth quarter compared with 16.3% in same period of the prior year. Gross profit for the quarter increased 72% to \$23.5 million, compared to \$13.7 million.

Operating income for the fiscal fourth quarter was \$6.1 million compared to \$3.7 million in 2007, and Titan's operating margin was 4.5% vs. 4.4% last year.

Titan raised its revenue outlook for the full year ending January 31, 2009 to \$550 million to \$600 million, compared to previous guidance of \$530 million to \$590 million.

**New Acquisitions.** Following the plan it announced in December when it went public, Titan continues to add

dealer locations to its growing network of farm and construction retail outlets.

On April 28, the company announced the acquisition of Quad County Implement Inc. with one store in Blairstown, Iowa. It followed on May 12 with an agreement to acquire the 6 construction equipment locations in Iowa and Nebraska of Mid-Land Equipment Co. LLC.

Quad County is strategically located in contiguous markets to the Titan's Waverly and Grundy Center stores in Iowa. The dealership reported revenues of \$14.8 million during its most recently completed fiscal year ended June 30, 2007.

Mid-Land Equipment, with locations in Des Moines, Davenport, Clear Lake and Cedar Rapids, Iowa, and Omaha and Lincoln, Neb., is a dealer for Case Construction Equipment. Mid-Land reported revenues of \$48.3 million during its most recently completed fiscal year ended December 31, 2007. The acquisition is expected to close at the end of May 30. **AEI**

### TITAN MACHINERY OPERATING STATEMENT

(in thousands)

#### Twelve Months Ended January 31

Revenue	2008	2007
Equipment	\$ 338,382	\$ 220,958
Parts	58,743	42,619
Service	27,344	21,965
Other (inc. trucking & rental)	8,502	7,056
	\$ 432,971	\$ 292,598
<b>Cost of Revenue</b>		
Equipment	\$ 302,320	\$ 200,558
Parts	42,568	29,909
Service	10,118	8,183
Other (inc. trucking & rental)	5,913	5,337
	\$ 360,919	\$ 243,987
<b>Gross Profit</b>	\$ 72,052	\$ 48,611
<b>Operating Expenses</b>	\$ 53,190	\$ 37,399
<b>Income from Operations</b>	\$ 18,862	\$ 11,212
<b>Net Income</b>	\$ 5,213	\$ 3,638

## Mahindra Tractor Sales Flat in India, Growing in U.S.

Mumbai, India-based tractor maker Mahindra & Mahindra Ltd. reports that domestic sales of its compact and utility tractors in March remained flat, but grew in the U.S.

Sale of Mahindra tractors in India during the month came in at 7,016 units compared to 7,053 units sold in the same period last year. The firm's farm tractor exports soared by 84%

1,387 units vs. 752 units. Since Mahindra' fiscal 2008 year started, overall tractor sales fell to 98,710 units from 102,529 units.

Meanwhile, tractor sales in the U.S. finished the month with new momentum, according to Mike Hilderbrand, head of marketing for Mahindra USA.

“In a very challenging time in

which the less-than 70-horsepower industry within our geographic footprint was significantly down, we closed our fiscal year ending March 31 with full-year wholesale billings ahead of last year and ahead of the industry,” Hilderbrand told **AEI**.

“We sold more tractors and had more revenue than any other month in the history of Mahindra USA.” **AEI**

## April Sales Up 16% Compared to 2007, Down vs. Last Month

Compared to April 2007, North American retail sales of row-crop tractors increased 15% in April, but were down from 16% and 67% in March and February, respectively, based on the latest figures released by the Assn. of Equipment Manufacturers. The sale of combines accelerated 47% in April and are up 22% over the last 3-month period. Retail sales of smaller tractors (<100 HP) remain relatively weak and declined 6% year-to-year in April.

- North American retail sales of row-crop tractors were up 25% in the last 3 months. April is the seasonally most important month of the year for row-crop tractor sales and accounted for about 14% of annual sales over the past 5 years, according to Robert McCarthy, analyst for RW Baird.

- Retail sales of 4WD tractors declined 10% in April following 7 consecutive months of double-digit increases; sales are up 13% in the last 3-month period.

- Sales of compact (<40 HP) and mid-range (40-100 HP) tractors were both down 6% in April; sales have declined 13% and 10%, respectively, over the last 3-month period.

- Dealer inventories of combines increased 2% year-to-year in March. However, inventories declined 11% on a days-sales basis and are 28% below the 5-year March average at 45 days. Inventories of row-crop and 4WD tractors declined 30% and 37% year-to-year, respectively, on a days-sales basis.

The USDA's initial 2008-09 World Agricultural Supply and Demand Estimates (WASDE) were released on May 9, 2008. The 2008-09 price forecasts incorporate higher prices for wheat (\$6.60-\$8.10; up 12% from 2007-08 prices at the midpoint), corn (\$5.00-\$6.00; up 29%), and soybeans (\$10.50-\$12.00; up 13%).

The forecast for 763 million bushels of corn ending stocks would be down 44% in 2008-09. Soybean ending stocks are expected to increase 28% in 2008/09. **AEI**



### APRIL U.S. UNIT RETAIL SALES

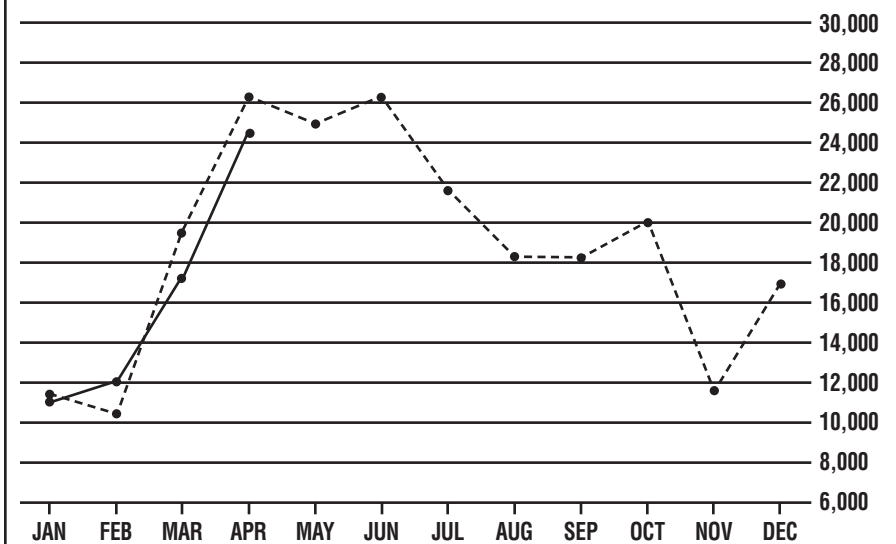
Equipment	April 2008	April 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	April 2008 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	12,992	13,986	-7.1	30,328	36,124	-16.0	65,414
40-100 HP	7,665	8,334	-8.0	21,214	29,977	-15.1	36,562
100 HP Plus	2,572	2,287	+12.5	6,127	4,776	+28.3	5,837
<b>Total-2WD</b>	<b>23,595</b>	<b>24,933</b>	<b>-5.4</b>	<b>60,596</b>	<b>68,490</b>	<b>-11.5</b>	<b>107,412</b>
<b>Total-4WD</b>	<b>468</b>	<b>363</b>	<b>+28.9</b>	<b>957</b>	<b>731</b>	<b>+30.9</b>	<b>844</b>
<b>Total Tractors</b>	<b>23,961</b>	<b>25,448</b>	<b>-5.8</b>	<b>61,918</b>	<b>69,736</b>	<b>-11.2</b>	<b>108,147</b>
<b>SP Combines</b>	<b>420</b>	<b>312</b>	<b>+34.6</b>	<b>1,695</b>	<b>1,463</b>	<b>+15.9</b>	<b>901</b>



### APRIL CANADIAN UNIT RETAIL SALES

Equipment	April 2008	April 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	April 2008 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	1,371	1,257	+9.1	3,252	2,579	+26.1	6,757
40-100 HP	891	748	+19.1	2,394	1,915	+25.0	3,339
100 HP Plus	612	483	+26.7	1,466	1,087	+34.9	1,720
<b>Total-2WD</b>	<b>2,874</b>	<b>2,488</b>	<b>+15.5</b>	<b>7,112</b>	<b>5,581</b>	<b>+27.4</b>	<b>11,816</b>
<b>Total-4WD</b>	<b>246</b>	<b>163</b>	<b>+50.9</b>	<b>438</b>	<b>299</b>	<b>+46.5</b>	<b>266</b>
<b>Total Tractors</b>	<b>3,120</b>	<b>2,651</b>	<b>+17.7</b>	<b>7,550</b>	<b>5,880</b>	<b>+28.4</b>	<b>12,082</b>
<b>SP Combines</b>	<b>145</b>	<b>73</b>	<b>+98.6</b>	<b>348</b>	<b>241</b>	<b>+44.4</b>	<b>380</b>

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



Continued from page 1

tion. The data do not support this view," Stookey says, "The effect of biofuels on wheat and rice prices — which are up more than corn and soy — are minor compared to droughts and low stocks. However, in the limited case of corn and vegetable oils, biofuels in combination with rising energy prices are playing a significant and widely misunderstood role."

The white paper maintains the higher costs for fuel and for energy-intensive fertilizers account for only a small fraction of the run-up in corn and vegetable oil prices.

Stookey asserts that those searching for reasons why food prices have risen during the past 12 to 24 months need first to look at the cost of oil.

"Petroleum is now driving corn and vegetable oil pricing, and this is the new pricing dynamic in these commodity markets," says Stookey. "The

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### ***"Biofuels capacity needs to be shut down. . ."***

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issue is not that we expanded biofuels capacity, but that in doing so, we linked these commodities to the price of oil at a time when oil was jumping from \$25 to \$100-plus a barrel."

The white paper calls most of the discussions surrounding corn and vegetable oil prices "thinly veiled advocacy" and "misinformation" that has only served to confuse.

"Expanding biofuels capacity would not have resulted in \$6 corn and \$0.70 soybean oil without \$100-plus petroleum. Petroleum is now driving corn and vegetable oil pricing, and this is the new pricing dynamic in these commodity markets," says Stookey.

**Marginal Consumers.** "When a commodity is in short supply, the price for the entire market is set at the price which the 'marginal consumer' will pay. The marginal consumer is what economists call the person for whom it *just barely* makes economic sense to buy the product.

According to Stookey, in the case of the corn and soybean-oil markets, the marginal consumers are ethanol

and biodiesel producers operating at or near break-even. "If this is the case, and all else being equal, then when the wholesale price of ethanol or biodiesel goes up or down, the price these biofuels producers can pay for corn or soybean oil will go up or down as well," he says.

**Too Much Ethanol Capacity.** Food will always win out in a food vs. fuel battle because "the food sector will pay pretty much whatever it takes to get the supplies it needs," says Stookey.

This will leave the marginal consumers — the biofuels producers — to fight over whatever is left. "Since there is not enough corn and soybean oil for the entire industry, prices rise, squeezing margins across the industry, and pushing out capacity until what remains matches the available supply. In other words, corn and vegetable oil prices are at their current levels because biofuels capacity *needs* to be shut down — there is not enough feedstock for the entire industry." **AEI**

### **USDA EXPECTS 7% LESS CORN, PRICE TO RISE TO \$5.50/BUSHEL IN 2008-09**

In its forecast for corn production during 2008-09 on May 9, the USDA said it expects U.S. growers will harvest 12.1 billion bushels, 7% lower than the record 2007-08 crop. The agency also projects that the average price for corn next year to be \$5.50 per bushel, up from the current \$4.25.

In releasing its monthly World Agriculture Supply and Demand Estimate (WASDE), the USDA is projecting 86 million acres of corn will be planted this year, of which 78.8 million will be harvested. USDA also forecasts 153.8 bushels per acre yield, which is based on trend-line yields.

"The lower acreage number is based on USDA's earlier forecast from the Prospective Plantings report, and it's important to note that producers are in the field now planting corn to meet the market needs," said National Corn Growers Assn. President Ron Litterer. Revised crop acreage estimates are expected in June.

**Feed Use Declining.** "It's also important to note skyrocketing input costs, such as fertilizer and diesel fuel, has tempered corn acres," says Litterer. On the demand side, USDA is projecting feed and residual use will decline to 5.3 billion bushels. Increased distillers dried grain feeding and substitution of other feedstuffs will compensate for a significant portion of the reduced corn usage, although a modest reduction in red meat production is projected.

Exports to foreign markets are also projected to decline from the 2007-08 record. "We have seen corn farmers in other countries like Argentina, Brazil and South Africa respond to higher commodity prices and expanded production," said Litterer. "This will increase the global supply of coarse grains, ensuring continued availability for world markets."

**Expanded Ethanol Production.** USDA projects ethanol production will continue to expand to meet U.S. fuel demand, but it notes that plant construction and expansion has begun to slow down.

Based on these production and demand projections, USDA is forecasting a 763 million bushel carryover for the coming crop. This is the amount of corn that will be left over at the end of next year after all uses have been met. **AEI**

### **Buhler Sees Significant Profit Improvement**

Buhler Industries Inc., Winnipeg, Manitoba, reported on April 30 that its profits grew significantly in its fiscal second quarter ending March 31 compared with the same period of 2007. The company said increased demand for its farm tractors pushed its earnings to \$3.6 million despite revenue falling off by 11% due to exchange rates.

Buhler earned a higher \$3.6 million (Canadian) during the quarter on sales of \$50.5 million. Last year, it

gained \$954,000 from revenues of \$56.7 million.

During the last 6 months, the company's net income increased to \$4.8 million on sales of \$82.9 million. This compares to a year-ago profit of \$1.1 million on sales of \$85.1 million.

Buhler noted farm tractor shipments are increasing as the supply chain catches up to demand. It expects shipments to increase during the last two quarters of its fiscal year, as well. **AEI**