

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Global Tractor Sales Up
- Deere Touts New Plant
- AGCO's New Products

## Canadian Dealer Suing Deere for Damages, Seeks \$9 Million

Luc Corbeil, a Canadian dealer who has been selling John Deere farm machinery for 28 years, says that for the past 7 years he has been in court with his equipment supplier. Corbeil, sole owner of Curran Farm Equipment, Ltd. of Curran, Ontario, was granted an injunction against the equipment maker in 2000 after he refused a Deere directive to sell a minimum of half of his business to two new managing partners.

Up until that time, Corbeil says that he had received a host of awards from Deere for his performance as an equipment retailer and had achieved "continuous sales growth" with his dealership, averaging nearly \$15 million in annual sales by 2000. He says that he had been designated as a "Key Canadian Dealership" by John Deere

and also recognized for being among the most loyal to the brand.

This all changed in April 1999 when Deere unexpectedly demanded that Corbeil sell at least 50% of his business. When he refused, he says, is when his troubles began.

In January of 2000, Deere issued a termination letter to Curran Farm Equipment with an effective date of October 31, 2000. The letter stated that Corbeil had failed to fulfill the request, specifically for "the addition of two new managing partners with a combined minimum interest in the dealership of 50 percent" According to Corbeil, the letter also commented on the dealership's lack of performance based on Deere market share calculations. The letter was signed by the manager of Deere's Eastern Canada

Division, Mike Blonski.

"Ironically, on November 3, 2000," Corbeil recounts, "the dealership received a letter of congratulation for its extraordinary performance in exceeding Deere's own sales target." Corbeil says he was awarded a trip to Hawaii as a bonus from Deere.

In October of 2000, Corbeil filed suit with the Superior Court of Ontario and was granted an injunction against the termination. In the interim, says Corbeil, the court also ordered Deere to avoid treating the retailer any differently than any of its other dealerships.

**Murky Market Share Calculations.** Corbeil alleges that Deere's decision to terminate was also based on its calculation of Curran Farm Equipment's market share with-

*Continued on page 2*

## Strong Commodity Prices Continue to Buoy Positive Ag Equipment Outlook

The USDA raised its price projections for both wheat and soybeans and left the already strong price of corn unchanged when it issued its latest World Agricultural Supply and Demand Estimates (WASDE) on June 11. According to Bank of America analyst, Seth Weber, the strong estimates for rising commodity prices and other factors are contributing to the ongoing view for improved ag machinery sales levels and valuation of stock values of AGCO, CNH and Deere.

In his report to shareholders, Weber says, "Although we've become incrementally more positive on the ag machinery opportunity, given relatively high corn prices, comparably low crop inventories and improve-

ments in Brazil — over time, high crop prices and high farm income drive investment in ag machinery — for now, our positive longer-term view of the global ag cycle is tempered by valuation."

**U.S. Wheat Stocks Tighten.** The USDA projects wheat endings stocks for 2007-08 at 443 million bushels, down from previous estimates of 469 million, mainly reflecting a 25 million bushel increase in expected exports.

Estimates moved slightly lower due to lower projected yield (41.5 bushels per acre vs. previous 41.7), though this was offset by a slight rise in beginning stocks. The 2007-08 price estimate is raised to \$4.50-\$5.10 per bushel (vs. \$4.35-\$4.95 in May).

**Higher Soybean Prices.** The USDA did not make any changes to soybean production-and-use estimates for 2007-08, though the projected average farm price moves \$0.15 higher on each end to \$6.65-\$7.65 per bushel (vs. \$6.30 in 2006-07), a reflection of recent strength in forward pricing.

**Little Change in Corn.** Ending stocks are now projected at 997 million bushels for 2007/08, reflecting an increase in beginning stocks (lower 2006-07 exports), while production-and-use estimates are consistent with last month. The average farm price projection remains \$3.10-\$3.70 per bushel (vs. \$3.00-\$3.10 in 2006-07). The USDA left the yield estimate at 150.3 bushels per acre, citing mixed weather. **AEI**

Continued from page 1

in its area of responsibility. The dealer says that by Deere's calculation, his dealership was exceeding his territory's average at the time.

"I had maintained an over-territory average during the previous 10 years," says Corbeil. In 1999, his territory manager told him after reevaluation that his trade area potential was increased by 36% over the previous year. "If you artificially increase the trade area, your market share automatically suffers," says Corbeil.

"It's unreliable data," claims Corbeil. "They do not define a trade area with a boundary — with a road, river, whatever. In the last few years, they've changed it again and say that if your AOR is in a portion of a county, you can sell anywhere in the county. This makes it more confusing because numbers get further distorted."

Dr. Harry Cummings, professor of the Rural Planning Programme at the University of Guelph, was retained by the dealership to study the market share issue. Dr. Cummings concluded that, "The lack of a clear method to verify the accuracy of data on the individual sales and entry process, the lack of a market area boundary and set of market area maps, make it impossible for dealers to verify market share data reported by the system."

The result," he says, "is the poten-

tial for significant mistakes in calculations that have implications for the reputation and viability of the dealership." This can greatly affect the profitability of dealership and is a major concern to all dealers.

Deere has yet to submit documents demonstrating the accuracy of its market share data to the court, says Corbeil. "It is now 7 years later and the pertinent documentation has still not been submitted," says Corbeil.

**Punitive Measures.** Corbeil claims he has also been subjected to other punitive measures instituted by Deere "in order to break and disrupt Curran Farm Equipment."

These, he says, have ranged from cutting the dealership's available credit by more than 75%, failing to supply necessary inventory, demanding prepayment prior to shipping parts and requesting a 25% deposit on all equipment orders.

Corbeil also claims that after notifying Deere division manager Bob Ziepe and John Deere Credit's top manager that neighboring dealers illegally sublease tractors in Curran's AOR — which was expressly forbidden in the company lease contract — Deere investigated and opted to ignore the matter, further eroding his sales potential, says Corbeil.

In spring 2006, Deere drastically

cut Curran's floorplan and refused to floorplan incoming lease returns, forcing the dealership to make additional financing arrangements. Shortly afterward, Deere's "litigation lawyer" had numerous communications with Curran's bank. The bank then called back Curran's operating loan, which was in good standing with no covenant in default.

Another action taken by Deere, he claims, is providing neighboring dealers with discretionary discounts, which, he explains, is an "unpublished discount in which a dealer is allowed an additional discount to make a sale."

All of this, Corbeil says, "allowed neighboring dealers to poach my business right, left and center. I went from a \$15 million business down to \$6.5 million (in 2006)." He is now seeking to increase his claim to \$9 million in damages.

John Deere officials did not respond to correspondence informing them that *AEI* was working on this story.

As the Curran Farm Equipment case heads for trial, and with a class action being investigated, many relevant details relating to Deere operating practices, market share calculation and trade area definition were omitted in this article, but will become public as the trial moves forward. **AEI**

## AGCO to Introduce 116 Products in 2008

AGCO, the world's third largest farm machinery maker, plans to launch 116 new products in 2008 to improve its worldwide market share in tractors, hay tools, planters and sprayers, according to the *Farm Journal*. The 116 new product launches in 2008 compares with 43 equipment introductions in 2006 and 60 in 2007.

Earlier this year, AGCO announced that it was restructuring its marketing efforts into two market segments broken out by professional producers and livestock, dairy and

rural lifestyle customers. The company also introduced several new compact and utility model tractors during the past 2 years. "We're at the best position we've ever been from a product standpoint under 100 hp and we have more products coming later this year," says Eric Raby, AGCO's vice president of marketing.

In addition to the domestic hay equipment market, Raby points out that this segment is showing strong growth potential in China.

Along with its three core brands

— AGCO, Massey Ferguson and Challenger — the company is also said to have ambitious goals for its Valtra and Fendt tractors, Hesston hay tools and Sunflower tillage equipment.

The Duluth, Ga.-based company enjoys a strong international presence, with worldwide net sales at \$5.4 billion, about two-thirds (\$4.3 billion) of that coming from outside North America. Global sales could be a key factor in AGCO's future growth as overseas markets are showing significant potential for all major equipment builders. **AEI**

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# Deere Touts New Brazilian Tractor Plant, Other Growth Initiatives

With its forward planning focused directly on its Shareholder Value Added (SVA) initiatives, John Deere says that it intends to accelerate numerous growth strategies that are already underway. Those getting the biggest push are its new tractor facility in Brazil, joint ventures and manufacturing operations in China, activities in irrigation and wind, plus its acquisitions in landscapes and expansion of its credit operations.

According to UBS analyst David Bleustein, who attended a series of meetings with Robert Lane, chairman and CEO, Michael Mack, sr. vice president and CFO, and Marie Ziegler, vice president investor relations on June 5-6, Deere management believes that the collective benefits from these growth initiatives "could move the SVA needle."

In his published notes from the meetings, Bleustein noted Deere's increasing vigor in the Brazilian market. "Watch for big market share gains," he says, which is currently dominated by AGCO with an estimated 60% share of the tractor market in Brazil.

**Favorable Tailwinds.** The analyst says that "favorable macroeconomic tailwinds" have pushed Deere & Co. stock values higher and in the company's view will drive higher levels of investment. These include higher corn, soybean and wheat prices, driven in part by population growth, growing global affluence and demand from ethanol/bio-diesel.

Saying Deere "may be overcapitalized," Bleustein maintains that the company remains focused on disci-

plined use of its cash. "Deere expects to use its cash balances and future cash flows to drive its growth initiatives (SVA growth focus), continue to increase its dividend and continue to fund its share repurchase program. Although Deere would not commit to a time frame to achieve it, management noted that a higher net-debt-to-cap is optimal," says the UBS analyst.

On May 31, Deere announced it obtained approval to repurchase up to 20 million additional shares of common stock. The repurchase program will go into effect after the existing 26 million-share plan, disclosed in November 2005, is completed.

**Flaws in SVA Model?** Deere's ongoing emphasis on asset management is reportedly yielding positive results, particularly in the areas of trade receivables and inventories. This push represents a major switch from the traditional "build-to-forecast" philosophy that has guided most U.S. manufacturers for decades to a "build-to-demand" operating model.

Some believe it is creating the new business model that other manufacturers will copy in the near future. (See *AEI*, May 2007, p. 8, "Emphasis on 'Asset Management' Yields Results at John Deere.")

But Wall Street Access analyst Charlie Rentschler speculates that Deere's push to streamline its product inventories may be leaving the manufacturer and its dealers short when demand for ag equipment jumps. This, he says, may have been reflected in the company's second-quarter results, which was announced on May 16.

"April North American retail sales data suggests Deere underperformed the industry," Rentschler says in WSA's most recent newsletter. "Our suspicion is that Deere got caught flat-footed given its conservative inventory reduction penchant and accordingly had to play catch-up with its increase in production, both in terms of suppliers and its own factories."

"We noticed very few machines on the lots as we drove by dealerships," says Rentschler.

During a telephone conversation with *AEI*, Rentschler said, "Beyond balance sheets and income statements, Deere needs to remember that they exist to provide product for customers."

Yet, he notes, "there were some positives, too."

"Ag machinery sales and margins were higher than we had forecasted. In North America, combine sales, which were expected to be down, are now expected to be flat (though we think they could be up). Deere also pointed to stronger-than-expected demand for large tractors."

Ag equipment outlook for the fiscal year in all regions has improved compared to Deere's earlier guidance:

- US & Canada: +5% vs. +0-5%
- Western Europe: +0-2% vs. flat
- South America: +20% vs. +0-5%
- Australia: -20% vs. -25%

**Strong Second Quarter.** On May 16, Deere reported its second-quarter results, which beat Wall Street's expectations, though profits were down by 16% compared with a year ago when the company sold its health care business. **AEI**

FARM MACHINERY TICKER (AS OF 6/11/2007)								
Mfr.	Symbol	6/11/07 Price	5/11/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$43.03	\$42.75	\$44.09	\$21.22	NA	987,645M	3.94 B
Alamo	ALG	\$25.07	\$26.35	\$28.37	\$19.25	23.99	20,054	244.83 M
Art's Way	ARTW	\$9.10	\$7.55	\$9.74	\$4.87	17.30	11,035	18.00 M
Caterpillar	CAT	\$78.75	\$73.81	\$79.46	\$57.98	15.14	3.69 M	50.43 B
CNH	CNH	\$46.93	\$43.46	\$50.33	\$18.76	32.37	400,838	11.10 B
Deere	DE	\$116.55	\$117.69	\$123.40	\$66.90	17.11	2.79 M	26.22 B
Kubota	KUB	\$42.47	\$45.06	\$53.83	\$37.80	17.55	50,262	10.97 B



# Worldwide Tractor Sales Showing Signs of Strengthening

Recent sales trends indicate that sales of tractors and combines in Brazil are recovering, while registrations in Portugal, Ireland and the U.K. are showing signs of strength, according to a new report (May 30) from UBS Investment Research. The machinery analysis indicates that German sales of ag machinery remains stable and in North America, sales of large tractors have recovered in the U.S. but remain relatively weak in Canada.

In terms of market share, with its acquisition of Valtra, AGCO is maintaining its dominant position in tractor markets in Brazil, while the German and U.K. markets are somewhat more fragmented, with Deere, AGCO and CNH each sharing market leadership positions.

In all, UBS compiled and analyzed 2006 agricultural machinery sales and registration data for 10 countries: U.S., Brazil, Canada, Germany, Portugal, the U.K., Ireland, South Africa, Turkey and Australia.

"We believe that this sample of 10 countries should provide some indication of trends in worldwide agricultural machinery markets across several continents," says UBS analyst David Bleustein.

**Recovery in Brazil.** Recent farm machinery industry trends indicate a recovery in sales of tractors and combines in Brazil. According to Associação Nacional dos Fabricantes de Veículos Automotores, April 2007 agricultural equipment sales in Brazil, by class, were as follows:

*Small Tractors (<5 hp)* — Sales increased 10% in April 2007, following a 1% increase in the prior month and compared to a 1% increase in April of 2006. In the full year 2006, small tractor sales increased 19%.

*Utility Tractors (51-100 hp)* — Sales increased 44% in April 2007, following a 35% increase in the prior month and compared to a 24% decline in April of 2006. In the full year 2006, utility tractor sales increased 6%.

*Row-Crop Tractors (100+ hp)* — Sales of row crop tractors increased 78% in April 2007, following a 59% increase in the prior month and compared to a 13% increase in April of 2006. In the full year 2006, row crop tractor sales increased 31%.

*Combines* — Sales increased to 137 combines sold in April 2007, from 41 combines sold in April 2006 (up 234%), following a 149% increase in the prior month and compared with a 58% decline in April of 2006. In the full year 2006, combine sales declined 33%.

*Tillers* — Sales declined 20% in April 2007, following a 23% decline in the prior month and compared to a 22% increase in April of 2006. In the full year 2006, tiller sales declined 13%.

## German Market Stabilizing.

Recent farm machinery industry trends indicate stabilization of tractor sales in Germany. According to Kraftfahrt-Bundesamt (German Federal Motor Transport Authority), total new tractor registrations in Germany were down 8% in April, following a 3% increase in March, and compared to a 5% increase in April 2006. New German tractor registrations by class in 2006 were as follows:  
*Small Tractors (<40 hp)* . . . . . +9%  
*Utility Tractors (41-94 hp)* . . . +25%  
*Row-Crop Tractors (>95 hp)* . . +22%

## Portugal Sees Improvement.

According to Auto Informa, in the full year 2006, tractor registrations (for both new and used compact and conventional) declined 13% in Portugal to 5,415 tractors. Most recently, in April 2007, tractor registrations increased 6%. Sales in 2006 by class were as follows:

*Compact Tractors (<40HP)* . . -24%  
*Conventional Tractors (40+ hp)* . . . . . -9%.

## Positive trends in the UK.

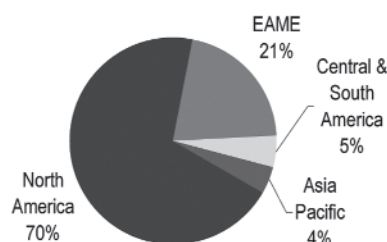
According to the U.K. Agricultural Engineering Assn. (AEA), 13,566 agricultural tractors over 40 hp were registered during 2006 (up 2% vs. 2005). Most recently, in April 2007, tractor registrations over 40 hp increased 23% following a 15% increase in March compared to a 6% decline in April 2006.

## Sales in Ireland Increase.

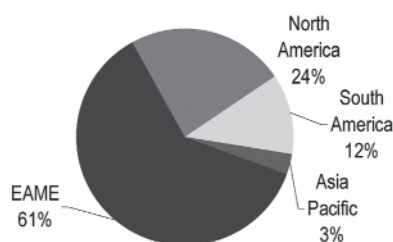
According to the Irish Central Statistics Office, 3,690 new tractors were licensed for the first time during 2006. However, according to the Irish Central Statistics Office, certain vehicles in Ireland, including some tractors not used on public roads, are registered but not licensed. Therefore, UBS believes this data likely underestimates the actual number of new tractor sales in Ireland. Nonetheless, directional sales trends are still informative and, given the licensing process, UBS believes a lag may exist between date of sale and date of first licensing. First-time licenses increased 36% in March 2007, following a 5% improvement in February, compared to a 24% increase in March 2006. For used tractors, first-time licenses declined 2% in March 2007, following an 8% decline in February, and compared to a 13%

## 2006 NET SALES BY MANUFACTURER BY GEOGRAPHY

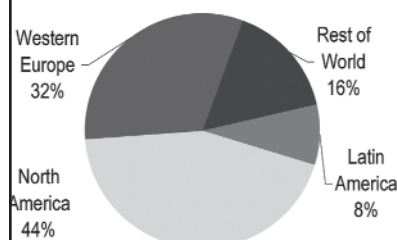
### Deere & Co.



### AGCO



### CNH



Source: Company reports and UBS estimates

increase in March 2006.

**Turkish Market in Doldrums.** According to Otomotiv Sanayii Derne (Automotive Manufacturers Assn. of Turkey), 28,386 total farm tractors were sold in Turkey during 2006, up 5% from 2005 levels. In April 2007, Turkish domestic wholesale sales declined 29%, following a 29% decline in March and compared to a 9% increase in April 2006.

**South African Sales Markedly Better.** According to the South African Agricultural Machinery Assn. (SAAMA), 5,724 tractors, 190 combines and 503 balers were sold in South Africa in 2006. Most recently, SAAMA reported that April 2007 agricultural equipment sales were as follows:

**Tractors** — Sales declined 12% in April, following a 46% increase in March, and compared to a 2% increase in April 2006. According to SAAMA, “The lower tractor sales figure level this month probably better reflects fundamentals in the market rather

than sales earlier in the year.” For the full year 2006, tractor sales were 25% above 2005 levels.

**Combines** — Sales increased 6% in April, following a 36% decline in March. This compares with a 23% decline in April of the prior year. For the full year 2006, combine sales increased 6%.

**Balers** — Sales increased 64% in April, following a 49% decline in March, compared to a 7% decline in April 2006. For the full year 2006, baler sales increased 21%.

**Drought Impacts Australia.** According to the Tractor and Machinery Assn., full-year 2006 agricultural equipment sales by class were as follows:

**Small Tractors (<40 hp)** — Sales increased 14% in 2006 following a 20% increase in 2005.

**Utility Tractors (40-120 hp)** — Sales declined 3% in 2006 following a 10% increase in 2005.

**Row-Crop Tractors (>120 hp)** —

Sales declined 25% in 2006 following a 2% decline in 2005. Some of the weakness in 2006 is attributed to drought, which significantly reduced the Australian wheat crop.

**Combines** — Sales declined 37% in 2006 following a 24% decline in 2005.

**Balers** — Sales increased 2% in 2006, following a 9% decline in 2005.

**Global Market Share Varies.** UBS notes in the report that the agricultural equipment manufacturers have varying degrees of exposure to different geographic regions.

Deere is the most reliant on North America (U.S. and Canada represented roughly 70% of 2006 revenues), followed by CNH, and then AGCO.

AGCO realized 61% of its 2006 revenue from the Europe, Africa, and Middle East region vs. 21% for Deere. CNH recognized 32% of 2006 revenues from Western Europe (Africa and Middle East revenues are reported in CNH's Rest of World category). **AEI**

## Net Income of Canadian Farmers Slips for Second Year in a Row

Realized net income for Canadian farmers fell for the second consecutive year in 2006 to its lowest level since 2003, according to Statistics Canada. Rising interest rates, wage and fuel costs, together with falling hog receipts and program payments, more than offset increases in revenue from crops and cattle, according to the agency.

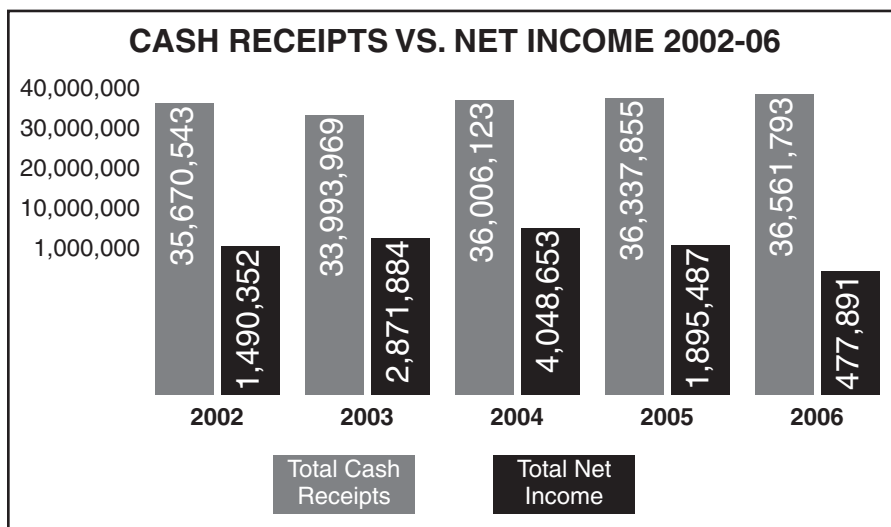
Realized net income measures the financial flows, both cash and non-cash, attributable to farm businesses, similar to an income statement (net cash income minus depreciation plus income in kind). Realized net income represents the net income from transactions in a given year in that it includes the sale of commodities regardless of the year they were produced.

Total farm cash revenue from livestock and crop receipts, as well as program payments, edged up 0.6% to \$37 billion (Canadian), the third consecutive annual increase. However, hog producers saw their receipts plunge 13% to \$3.4 billion. The decline left revenues 8.7% below the

previous 5-year average. Prices were the main factor, averaging 12.7% below those of 2005.

Increased cattle and calf receipts softened the drop in livestock revenues, climbing 2.1% to \$6.5 billion. Cattle exports regained strength following the reopening of the American border to live cattle under 30 months of age. The 1 million cattle and calves

exported in 2006, while almost doubling the figure from 2005, remained 40.7% below the pre-bovine spongiform encephalopathy (BSE) peak in 2002. Reduced U.S. demand for Canadian cattle, partly due to drought-stricken U.S. ranchers shipping cattle early to feedlots, together with a strong Canadian dollar, discouraged Canadian exports. **AEI**



## Is Bobcat an Acquisition Candidate for AGCO or CNH?

Earlier this month, Ingersoll-Rand Co., Ltd., (I-R) manufacturer of Bobcat skid-steer loaders, Club Car golf cars and other construction-related products, reported it is mulling the sale or spin-off of its construction machinery unit Bobcat Co. I-R said it is exploring strategic alternatives for Bobcat located in Fargo, N.D., and expects the process to conclude during the second half of 2007.

On June 11, I-R further reinforced its position when it announced that it would not replace retiring

Christopher Vasiloff, president of its construction technologies business, because the businesses he was responsible for have been divested or are currently under strategic review.

This led to one web blogger to speculate, "Does Fiat have enough money to make CNH into CNHB?"

CNH, with its Case brand, already has a significant position in the construction equipment industry, but doesn't have a highly recognized brand of skid-steers. Bobcat currently owns a 50% market share of the skid-

steer loader market in North America. On the other hand, CNH's New Holland construction division has gained some market share with its skid-steers in recent years.

While AGCO has said that its focus remains on ag equipment, would the purchase of the Bobcat brand open the door to construction and other heavy equipment markets where AGCO currently has no presence? I-R also produces Czech-made industrial wheel tractors and other construction-related products. **AEI**

## Tonutti Group Acquires Italian Hay Equipment Firm Wolagri

The Tonutti Group of Remanzacco, Udine, Italy, reported on June 5 that it acquired Wolagri S.r.l. in Suzzara, Mantova, Italy, manufacturer of hay-making and hay handling machinery (balers, bale wrappers and bale shredders). This adds to Tonutti's already broad range of hay tools.

According to Tonutti, this acquisition will provide new synergies that involve both product and sales networks. "The challenges of the forthcom-

ing years will involve two key elements: size of the company and product range.

"Our goals have always been to grow and to improve," says Carlo Tonutti, president of the Tonutti Group and vice president of Unacoma, the Italian Farm Equipment Manufacturer Assn.

"Thanks to these new additions to our product line, we are sure our presence in the global market will grow further. Being a leader in one's

product segment is proof of having made the right decisions at the right time and having firmly believed in the company's strategies."

The Tonutti Group has manufactured farm machinery since 1864 and has six production facilities in Italy and one in Russia, along with two sales subsidiaries: Tonutti U.S.A. and Tonutti Russia. With the new acquisition, the Tonutti Group now employs 400 workers. **AEI**

### CORRECTION

On p. 6 in the May 2007 issue of *Ag Equipment Intelligence*, an item with the headline "Deere Responds to Lawsuit," was incorrectly reported. The item discusses Deere & Co.'s response to a lawsuit involving the proposed sale of an Alabama dealership.

The news item was found during a search of the web and was dated May 6. No year was indicated. An official from John Deere informed *AEI* that the item was 3 years old and the lawsuit has been settled to the satisfaction of both parties.

*AEI* regrets the error and will make every attempt to assure that oversights of this nature do not occur in future issues. **AEI**

## Deere Expands Chinese Operations by Acquiring Benye Tractor

On June 8, Bank of America analyst Seth Weber issued a "heads up," reporting that John Deere announced plans to expand its small tractor manufacturing in China through the acquisition of Benye Tractor and Automobile Manufacture Co., Ltd.

"The deal adds to Deere's product offering in the Chinese market, as Benye primarily produces 20-50-hp tractors," reports Weber. "Currently, Deere produces 60-120-hp products in China through a joint venture." The company did not disclose financial details of the transaction, though the company expects to close the deal later this year, forming a wholly-owned subsidiary, John Deere Ningbo Agricultural Machinery Co., Ltd.

According to Weber, Deere views the 20-50-hp segment as significant,

given increasing mechanization of rice farmers, and the company expects the need for more powerful equipment to drive demand. Benye added a new facility in recent years, which covers 200,000 square meters, and has a capacity to build roughly 30,000 tractors. It built roughly 21,000 tractors in 2006.

"We estimate Benye revenues at less than \$100 million, with 95% of revenues from China," says Weber. "The business is expected to be profitable for Deere in year two and SVA in year three."

Deere has provided products to the China farming market since 1976 and has manufactured machinery in China since 1997, when it entered a joint venture to build combines at a factory at Jiamusi. **AEI**

## Big Tractor Sales Continue Momentum in May

Sales of big tractors continued the upward trend that started in April, lending additional credence to earlier forecasts of strong 2007 sales for ag machinery makers and dealers.

North American retail tractor sales comparisons remained strong in May amid strengthening field crop futures prices. Row-crop and 4WD tractor sales were both up year-to-year by double-digit percentages (second consecutive month), and combine sales (+6%) rebounded to positive territory in May, according to Baird analyst Robert McCarthy. "Relatively more economically sensitive mid-range tractor sales were flat. Inventories appear well controlled, supporting a positive outlook for machinery production schedules."

Based on the latest figure released by the Assn. of Equipment Manufacturers, May retail sales showed the following:

- North American retail sales of row-crop tractors (2WD; >100 hp) increased 13% year-to-year in May after increasing 14% in April; sales have increased 12% during the last 3-month period. May's retail sales have contributed 8% of annual sales on average during the previous 5 years.
- Retail sales of 4WD tractors were (again) up sharply year-to-year in May, increasing 32% year-to-year after increasing 40% in April. 4WD tractor sales have increased 24% during the last 3-month period. May is of average seasonal importance for 4WD tractor sales, contributing 9% of annual sales.
- Sales of combines increased 6% year-to-year in May, recovering from April's 25% decline. May is a seasonally less important month for combine sales, contributing 6% of annual sales on average.
- Dealer inventories of row-crop tractors, 4WD tractors and combines were all down on a year-to-year basis in April, with row-crop inventories down 7% year-to-year, 4WD inventories down 11%, and combine inventories down 31%. On a days-sales basis, industry inventories were essentially flat.

**AEI**

### MAY U.S. UNIT RETAIL SALES



Equipment	May 2007	May 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	April 2007 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	15,127	16,249	-6.9	51,000	53,869	-5.3	64,589
40-100 HP	7,784	7,842	-0.7	32,759	30,728	+6.6	38,840
100 HP Plus	1,592	1,354	+17.6	8,980	8,302	+8.2	5,573
<b>Total-2WD</b>	<b>24,503</b>	<b>25,445</b>	<b>-3.7</b>	<b>92,739</b>	<b>92,899</b>	<b>-0.2</b>	<b>109,002</b>
<b>Total-4WD</b>	<b>307</b>	<b>242</b>	<b>+26.9</b>	<b>1,554</b>	<b>1,416</b>	<b>+9.7</b>	<b>787</b>
<b>Total Tractors</b>	<b>24,503</b>	<b>25,445</b>	<b>-3.7</b>	<b>94,293</b>	<b>94,315</b>	<b>0.0</b>	<b>109,789</b>
<b>SP Combines</b>	<b>463</b>	<b>421</b>	<b>+10.0</b>	<b>1,928</b>	<b>1,837</b>	<b>+5.0</b>	<b>1,005</b>

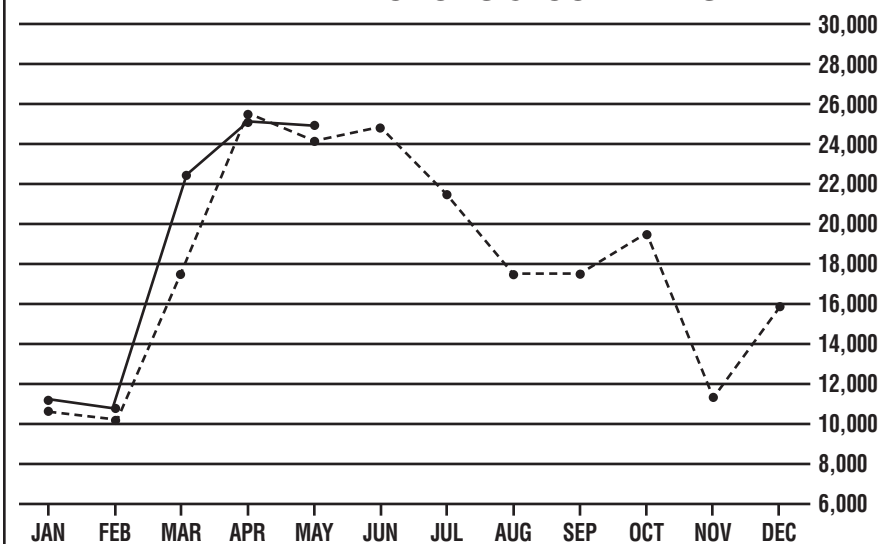
### MAY CANADIAN UNIT RETAIL SALES



Equipment	May 2007	May 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	April 2007 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	1,858	1,623	+14.5	4,402	3,625	+21.4	5,987
40-100 HP	745	720	+3.5	2,659	2,646	+0.5	3,313
100 HP Plus	427	428	-0.2	1,509	1,625	-7.1	1,547
<b>Total-2WD</b>	<b>3,030</b>	<b>2,771</b>	<b>+9.3</b>	<b>8,570</b>	<b>7,896</b>	<b>+8.5</b>	<b>10,847</b>
<b>Total-4WD</b>	<b>89</b>	<b>58</b>	<b>+53.4</b>	<b>389</b>	<b>332</b>	<b>+17.2</b>	<b>173</b>
<b>Total Tractors</b>	<b>3,119</b>	<b>2,829</b>	<b>+10.3</b>	<b>8,959</b>	<b>8,228</b>	<b>+8.9</b>	<b>10,690</b>
<b>SP Combines</b>	<b>79</b>	<b>85</b>	<b>-7.1</b>	<b>316</b>	<b>349</b>	<b>-9.5</b>	<b>501</b>

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

— 2007  
--- 5 year average



—Assn. of Equipment Manufacturers



## Mahindra's Tractor Sales Rise 21.8%

Mahindra & Mahindra, Ltd., manufacturer of farm tractors and utility-type vehicles, announced that sales of its farm tractors rose 21.8% during fiscal 2007, which ended March 31. The firm, headquartered in Mumbai, India, says it maintained its domestic full-year market share at 29.9%.

Mahindra also said it ended the year with a "lean, healthy pipeline with dealer stocks."

Tractor sales grew during the full-year to 318,317 units vs. 262,621 units, as Mahindra's turnover of farm vehicles expanded to 95,006 units from 78,048 units last year. During the fourth quarter of fiscal 2007, the company sold 21,519 units of farm machinery compared to 19,374 units in the same period last year.

Tractor exports for the full year rose to 7,525 units, up from 6,981 units in the previous year.

Mahindra's earnings during fiscal 2007 also rose by 24.6% on a 22.3% sales increase in auto sales during the period. **AEI**

### MAHINDRA READY TO BUY SECOND TRACTOR FIRM IN CHINA?

The farm machinery unit of India's Mahindra & Mahindra reportedly may acquire a second farm tractor-making firm in China as it seeks to produce vehicles with up to 110 horsepower, sources reportedly familiar with the matter disclosed on June 8. The firm is in the last stages of the agreement.

Mahindra reportedly is talking with several Chinese companies and looking at alliances in China, South America and South East Asia.

The three companies include tractor-maker Yenchang Jinma Tractor Co., which produces tractors and engines in the 20-110-hp range. The acquisition is expected to be disclosed within 2 months.

In December 2004, Mahindra acquired an 80% stake in Jiangling Tractor to form Mahindra China Tractors. Mahindra invested \$8 million in the joint venture that makes 15-40-hp farm tractors with a 12,000-unit capacity.

## Ag Component Manufacturers Still Waiting for Orders

During recent conversations with suppliers to ag equipment manufacturers, it was clear that despite the bullishness in the ag market, the impact on the "build side" has not yet been felt in any big way. Several commented that they returned from the Farm Equipment Manufacturers Assn. (FEMA) meeting in late April with

high hopes that increased steel and component orders would be immediately forthcoming. However, the optimism from the FEMA meeting has not carried forward into orders and they are "still waiting." While many believe the optimism surrounding "corn fever" is real, its impact on components and manufacturing may not be

felt until later in the year.

Overall, the component suppliers with whom **AEI** conversed noted that their business is flat, slightly above last year's levels. Several suppliers noted their European ag business has been very strong and that overseas demand has made raw material needs even more tenuous. **AEI**

## Trelleborg Launches Program to Re-Brand Pirelli Ag Tires

Trelleborg has launched a PR and advertising offensive to manage the transition of its radial farm tire branding from "Pirelli" to "Trelleborg" before a license to use the former expires in 2010.

It's the latest stage in the expansion of Trelleborg's farm tire operations. In 1999, it formed a joint venture with Italy's Pirelli as a precursor to full ownership of the operation 2 years later. The deal gave Trelleborg radial technology to complement its bias-ply tractor and implement tires and left Pirelli to concentrate on car, truck and motorcycle products.

In addition to acquiring all production and technology rights, Trelleborg Wheel Systems, the tires and rims arm of the Trelleborg Group, also acquired Pirelli's farm tire plant in Tivoli, Italy. This is now headquarters for the agricultural & forestry tires

business unit and the core production site for the majority of its off-highway tires. Trelleborg's tire production in Sweden was axed earlier this year.

The wheel systems division generated 2005 sales equivalent to \$427 million, which is 13% of group turnover. It produces tires, rims and complete wheel assemblies for retail and OEM customers to fit farm tractors and harvesting machinery, trailers and implements, forestry machinery and industrial forklifts.

"Although 72% of our turnover is generated in Europe, we are active in North America and South Africa and are expanding in Asian markets," comments TWS president Maurizio Vischi. "Agriculture accounts for 66% of our sales, so it is important that we successfully manage the transition of Pirelli branding to Trelleborg for our radial tires."

The Pirelli name has a strong association with performance tires in Europe as the Italian manufacturer made the first radial farm tractor tire and led the trend toward low-profile designs in the 1980s.

Trelleborg wheel systems need to transfer the qualities of its acquired brand to a name that has been synonymous with bias-ply tires. The shift in branding, which started with the low volume TM2000 high-capacity tire design for harvesters, gets into top gear with the addition of a 710/75R42 size to the TM900 high-power range for tractors up to 300 hp.

Apart from having "Trelleborg" instead of "Pirelli" molded into its sidewalls, the newcomer is the largest diameter and largest volume design in this range and heralds a new generation rated for sustained use at up to 25 mph. **AEI**