From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Deere to Raise Prices?
- Ethanol in Disarray
- Downturn Coming?

Montana-Branson Merger Signals Shakeout in Compact Tractors

It looks as if the anticipated consolidation of the compact tractor industry in North America is under way, with the first salvo being merger plans for Montana Tractors LLC and Kukje Machinery Co., the parent company of Branson Tractors Inc.

Officials at Branson and Montana have signed a letter of intent for a potential joint venture, including a merger, where a new North American entity would be formed to distribute farm tractors in North America.

A combination of the two companies would yield 460 dealerships in North America, unless there is some streamlining of dealer networks.

In theory, observers say, the merger would provide Montana with a reliable supply of tractors to market in the U.S. and Canada, and give Branson stronger American sales and marketing capabilities, as well as improved parts and service support for dealerships.

Saewook Chang, vice president of Dongkuk Steel Mill Co., Kukje's parent company, and Ted Wade, vice chairman & co-owner of Montana Tractors, met in June in Seoul and signed the letter after a tour of Kukje's production facility in South Korea.

Two well-connected industry observers believe a shakeout is indeed

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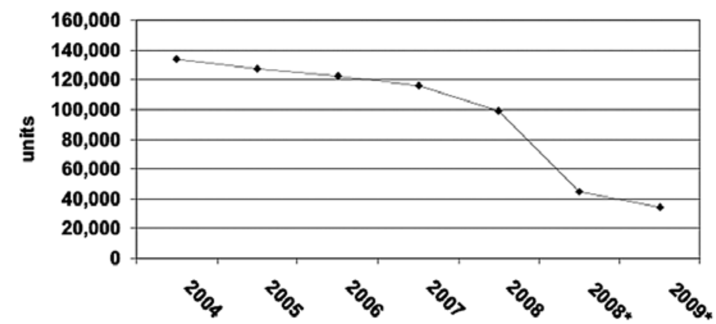
U.S. Sales of Compact Tractors — 2004-2009



Source: AEM, *figures as of May 2008 & May 2009

Will Lane Be Missed at Deere?

It's hard to say what was more surprising, Bob Lane's stepping aside as president and CEO of Deere & Co., or the farm equipment maker rolling its Commercial & Consumer Equipment operations into its Agriculture division to form the Worldwide Agriculture & Turf Division.

What's paradoxical about these high-level moves is that, while Lane emphasized improving shareholder values during his 9-year tenure as CEO, the consolidation of the two divisions will make the company's financial performance less transparent to shareholders.

Following an 18-month search for a successor, Deere's board of directors is handing off Lane's presidential and CEO duties to Samuel Allen on August 1. He will go from overseeing the tenth largest construction machinery company in the world to its most dominating and aggressive ag equipment manufacturer.

Allen, 55, is only the ninth chief executive in Deere's 172-year history. He joined Deere in 1975 as an industrial engineer and most recently served as president of the company's construction and forestry business, and global operational responsibility for the company's engine business. He has been a senior officer of the company since 2001. Lane will continue to serve as chairman until Allen's expected succession, the company said. Because so little is known about him in the ag industry, it's difficult to tell what direction he may take the big, green marketing machine.

The change at the top of Deere caught many industry observers off guard.

"We were a little surprised by the announcement of a CEO changeover at Deere, but we don't see this evolution as a negative," Morgan Stanley analyst Robert Wertheimer said in a research note. He pointed out that Lane's tenure, at 10 years, was half the length of leadership in Deere's earlier history.

The move has been contemplated for over a year, he said, as "the board wanted to minimize disruption and successfully kept the process low profile."

But an executive from one of Deere's biggest farm equipment dealership groups told *AEI* he saw signs of an impending change.

"It shocked me less than some

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Montana-Branson Merger...Continued from page 1

under way, and will continue as global economic problems and cash pressures weed out weaker companies.

Too Many Brands. "We have 14 different brands of compact tractors, and even before the economic downturn the market was saturated," says E.W. "Swede" Muehlhausen, an industry consultant and former advisor to Branson Machinery.

"Even if the economy would have stayed normal, there would have been declining sales. There's not enough market for competitors, especially when you add in Deere, Kubota, AGCO, Case IH and New Holland."

Muehlhausen believes the key to surviving for ag equipment companies during a shakeout is diversification with new products, new markets and new approaches in all markets.

One veteran industry executive also believes the shakeout will continue and that AGCO is positioned financially to make some significant moves.

"Will there be consolidation in the ag industry? Yes. There are definitely too many in the compact tractor side," says the executive, who spoke to *AEI* off the record. "I think we'll see other things happening this year."

Kukje Machinery is an affiliate company of Donkuk Steel Mill, which manufactures tractors, combines, rice transplanters as well as diesel engines. It distributes its tractors in North America through Branson, Kukje's wholly owned U.S. subsidiary with 210 dealer networks.

Montana Tractors, a privately held corporation in Springdale, Ark., distributes compact and utility tractors through 250 dealers in North America.

"LS Cable ceased shipping tractors to Montana and is entering the market directly..."

The two sides say they want to be "a more powerful player" in the North American tractor market by consolidating distribution-based Montana and manufacturing-based Branson.

"The potential merger is very timely at the turn of the U.S. economy and will create positive synergy effects for both of us by combining core competencies from each other in marketing, manufacturing, R&D, and financing," says Chang.

LS Cable is Coming. Montana was forced to act quickly when its South Korea-based supplier, LS Cable, announced earlier this year that it would enter the market directly and cease shipping tractors to Montana.

After buying Farmtrac's assets last year to fill the gap, Montana said it planned to consolidate operations at Farmtrac's former plant in Tarboro, N.C. When this issue of *AEI* went to press, it was unclear if those plans have changed, as Montana did not respond to interview requests.

When the Branson-Montana joint venture was announced, Wade talked about industry conditions forcing some tough choices.

"The U.S. economy and consumer confidence is at an all-time low. We're seeing continued pricing pressures at the consumer level and price increases from our suppliers," Wade says.

"Wade believes Branson and Montana will bring individual expertise that can make the marriage work.

Montana will manage the operations, sales and marketing and distribution in the U.S. and DK Steel/Kukje Machinery Co. will handle engineering, manufacturing and design of "high-spec, high-quality tractors. **AEI**

Manitou Reorganizes in Wake of Gehl's Troubles

The unfortunate timing — as it now turns out — of Manitou's acquisition of Gehl last October has resulted in a major reorganization of the business and the appointment of a new CEO by the French group's supervisory board.

Marcel Claude Braud, son of supervisory board chairman Marcel Braud, has been replaced by Jean-Christophe Giroux, who has worked for French telecom Alcatel-Lucent since 1997.

In a statement, Manitou said the appointment reflects the need for new "management both global and reactive at the head of the Group, allowing Manitou to better adapt to its new environment and to consolidate its leadership."

Business units are being re-organized to lower the break-even point and improve cash-flow generation, with 3 operating divisions being created to simplify reporting lines. This includes Compact Equipment America that will handle all Manitou's activities in the Americas.

Manitou paid Gehl shareholders $330 million to complete its acquisition just as the global financial crisis hit the construction equipment sector in which the French company and its new U.S. subsidiary are major players.

The sharp downturn in business in the fourth quarter reversed the 6.6% positive trend in sales recorded to the end of last September. Manitou was also hit by the depreciation of Sterling and the U.S. dollar vs. the Euro, which effectively wiped $33 million from its 2008 sales revenues — more than the $28 million contributed by Gehl in the last 2 months of the year.

In the first quarter of 2009, consolidated sales were down 46.2% compared with 2008. The group now forecasts a contraction in sales of around 40% for the full year. **AEI**

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Alo Acquires Bush Hog Plant in Tennessee

Alo, the Swedish maker of tractor loaders, announced on June 11 it is taking over Bush Hog LLC's plant in Telford, Tenn.

The acquisition of the 6-year-old, 330,000-square-foot manufacturing facility should close in August, according to Alo TN, a division of Sweden's Alo AB.

Alo will produce Bush Hog's front loaders for the North American market and will also use the plant to manufacture other products.

Alo's front loaders are currently marketed under the Quicke, Trima and Veto brands. Veto was acquired in 1999 and Trima — a former Alo competitor — in 2000.

The relationship will give Alo manufacturing capabilities in the U.S. It will ALSO allow Bush Hog to continue providing "quality and competitive front-end loaders and attachments in the marketplace," says Bush Hog.

Production was shut down early this year at the Tennessee plant while Bush Hog searched for a buyer. The fate of the plant and its 141 employees were in doubt until the deal with Alo was announced on June 11.

Alo, which has 600 employees, develops, produces and globally markets front loaders and related equipment for several OEM tractor manufacturers.

Prior to the Bush Hog acquisition, the company had 5 factories in 3 countries and sales companies in 8 countries, including the U.S. and Canada. Alo says it sold 34,000 front loaders and 55,000 implements in 2008.

Bush Hog designs, manufactures, distributes and services rotary cutters, finishing mowers, zero-turn mowers, front-end loaders, backhoes, utility vehicles, landscape equipment and a wide variety of other implements. The company continues to seek a buyer for its remaining product lines.

Alo says one advantage to the deal is that Bush Hog's product range completes the company's current line. The market segment for smaller, less-expensive loaders is expected to grow significantly in coming years, Alo says, and North America is where it is expected to grow fastest.

"There are many advantages, both financially and environmentally, to producing products close to where the customers are located," says Olle Pehrsson, Alo's managing director and CEO. "We are very satisfied that we can move ahead with our strategy to become a full-line supplier of front loaders." AEI

Deutz Ag Engine Revenues Rose 37% in 2008

While overall figures showed a significant falloff in demand for Deutz diesel engines last year, the German manufacturer was encouraged by the healthy increase in sales to the agricultural machinery sector.

Deutz sold almost 12% fewer power units last year — totaling 252,359 units — and its compact engines business suffered a similar decline — to 219,681 units — as construction equipment firms slashed production schedules toward the end of the year.

But revenues from sales to ag equipment makers bucked the trend. They increased 37% to reach the equivalent of $260 million at current exchange rates, vs. $190 million in the prior year.

Tractor group Same Deutz-Fahr, the engine maker's biggest shareholder with a stake of more than 45%, remained a major customer. It took 13,700 Deutz units for its assembly plants in Italy and Germany last year. It expects to increase its purchases to more than 20,000 engines annually over the next 3 years.

According to the company, research and development was significantly expanded during 2008, as spending rose more than 60% to the equivalent of almost $127 million, accounting for 6% of group revenue.

Apart from ongoing development of new and current engines, the biggest emphasis is on exhaust gas after-treatment technologies to meet the significantly lower Tier IV Interim emissions standards due to start coming into effect in 2011. AEI.

FARM MACHINERY TICKER (AS OF 6/11/2009)

Mfr.	Symbol	6/11/09 Price	5/11/09 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	$28.71	$24.74	$63.14	$14.62	7.35	1.71 M	2.65 B
Alamo	ALG	$10.87	$11.45	$26.17	$9.22	11.15	21,295	108.42 M
Art's Way	ARTW	$5.79	$4.97	$19.52	$2.90	17.06	12,573	23.12 M
Caterpillar	CAT	$37.61	$38.43	$82.35	$21.71	9.23	14.46 M	22.63 B
CNH	CNH	$17.14	$16.61	$43.29	$5.69	6.93	523,236	4.07 B
Deere	DE	$45.08	$43.82	$82.00	$24.51	12.06	6.05 M	19.06 B
Kubota	KUB	$37.69	$31.36	$40.75	$17.72	19.43	47,400	9.59 B
Titan Machinery	TITN	$14.12	$12.28	$34.49	$7.50	13.11	327,812	249.75 M

Will Deere's Merging Divisions Make Any Difference?

Along with consolidating its dealers, Deere made another big move when it announced that it is merging its Commercial & Consumer Equipment division into the much larger farm equipment operations. The new group will be called the Worldwide Agriculture & Turf Division.

Dealers that *AEI* spoke with don't believe that combining the two divisions will make much difference at the local level. The bigger issue will be sorting through Deere financials to determine what's doing well and what isn't.

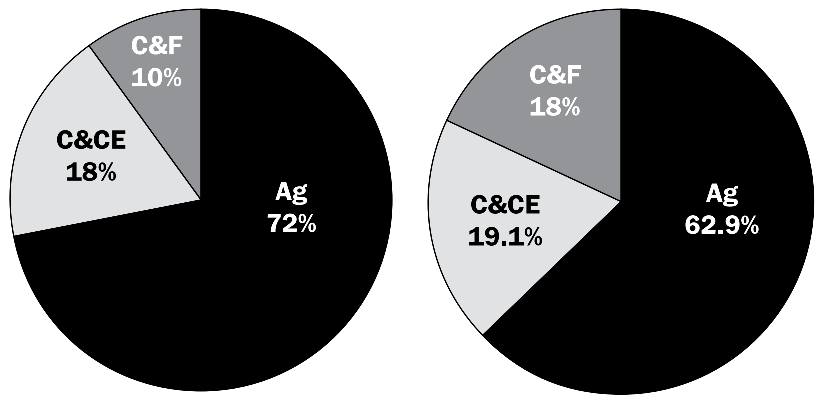
The move will reportedly eliminate about 200 jobs. Deere says the anticipated annual savings related to the new organizational model is in the range of $50 million beginning in 2010.

During a conference call with analysts on May 20, a Deere spokesperson said, "While that number is meaningful, the most powerful impact will be in the scale advantage and cost-reduction opportunities." "

No Local Difference. A regional sales manager for one of Deere's largest dealer groups doesn't expect the consolidation of the two divisions to affect his operations. "We've had a great relationship with our ag equipment rep for a long time and see him regularly. We'll work through him. We haven't seen our C&CE rep in months," he says.

Another Deere dealer said that many of the independent lawnmower retailers probably wouldn't survive the current downturn. "They really need to be part of something bigger. It makes sense to sell lawnmowers out of a farm machinery store."

John Deere Equipment Sales — 2Q 2009 (by equipment division) | **John Deere Equipment Sales — 2Q 2008 (by equipment division)**



In the second quarter of 2009, Deere & Co.'s sales of farm machinery represented nearly 73% of its total revenues from equipment sales. More than 90% of sales in the quarter came through its ag and Commercial & Consumer Equipment division combined, leaving only slightly more than 9% coming from its Construction & Forestry division. Starting with its next reporting period (3Q '09), this is how Deere will be reporting its financials. These numbers compare with 62.9% for ag, 19.1% for C&CE and 18% for C&F in the 2Q of 2008. With the combined Worldwide Agricultural & Turf division accounting for such huge percentage of sales, one analyst suggests that C&F might as well be folded into the larger division, creating only one large equipment group.

Less Transparency. But making sense of Deere's financials will become far more confusing for investors. According to Charlie Rentschler, an analyst with Wall Street Access.

Combined, the new ag and turf divisions will account for 90% or more of total equipment revenues.

Starting in the third quarter, equipment results will be reported only for the new combined agriculture and turf division and the construction and forestry division. Deere also said that its financial forecast for the remainder of the year would reflect the new divisional lineup.

"Deere will become less transparent, much like Caterpillar," says Rentschler. "It's nearly impossible to figure out what's going on there, the way they have everything jumbled together. Other than its finance operations, things are stuffed at random into either machinery or engines and they're patently neither.

"Deere and CAT are both becoming opaque, vs. transparent like Cummins and AGCO." AEI

Higher Prices Coming for Deere Equipment?

The word on country roads these days is that prices for the big, new John Deere tractors will rise 10% or more this fall. As one analyst put it, "That's not going to be well received."

Reportedly, this increase doesn't incorporate the new Tier IV emissions technology. That will come next year.

Last month the owner of a multi-store Deere dealership in the Midwest told AEI that he's seriously concerned about the rising price of new equipment.

"The major concern I have is affordability for customers with today's margins in farming. There's not enough customers for big equipment at these prices," he says.

USDA Expects Lower Corn Yields

In its June 11 World Agricultural Supply and Demand Estimates report, USDA lowered its forecast for 2009-10 ending corn stocks to 1.09 billion bushels, from 1.145 billion bushels, driven by lower than expected yields. The farm agency now expects average yields to come in at 153.4 bushels per acre compared with its previous forecast of 155.4 bushel. The lower-yield projections were partially offset by lower expected use for feed and residual. It also raised the midpoint of its corn price forecast to $4.30 per bushel from $4.10.

In addition, USDA lowered its soybean ending stocks forecast by 9% but raised its wheat ending stocks forecast by 2%. It raised the average soybean price forecast to $10 per bushel from $9.45 and its average wheat price forecast to $5.40 per bushel from $5.20. AEI

Analysis: The Ethanol Industry in Disarray

With three publicly traded companies in bankruptcy and few, if any ethanol producers, making any money, the industry is finding itself in a state of flux that, in all likelihood, will result in a smaller, but more viable producer base.

"It's like so many other things in that it unfortunately got overdone. Now we're feeling the consequences," Charlie Rentschler, analyst for Wall Street Access told *AEI*.

"The industry isn't going to go away. It'll probably shrink somewhat with those left standing remaining marginally profitable. I suspect companies like Valero, the Andersons and ADM will be the kind of firms that will buy up a lot of these assets."

The 'Ethanol Paradox.' In a June 5 note, Rentschler said, "Emerging as the major new customer for the American row-crop farmer, ethanol, more than any other single factor, explains the extraordinary boom in U.S. and worldwide agriculture in the past 5-10 years, as far as we're concerned."

The USDA projects that 3.7 billion bushels of 12.1 billion bushels of corn produced in the fiscal-year ending this summer, or 31%, will go into producing ethanol. "Putting it another way," says Rentschler, "corn-for-ethanol is taking up about 10% of our *entire* crop ground.

Ethanol's rise has been "disastrous for livestock producers but great for row-crop farmers," he says. "Ethanol per se has, to our thinking, caused over the past few years the price of corn and soybeans to more-or-less double because they compete directly for acreage.

And, because of the significance of American agriculture in terms of global production, the prices for grain and oilseed commodities have been driven up worldwide by the ethanol phenomenon."

'Entrepreneurial Spirit.' Rentschler points to the stand-alone, co-op owned Cardinal Ethanol refinery in Union City, Ind., which just came on-line last November. He sees this as a symbol of the entrepreneurial spirit that has been driving ethanol production, while at the same time demonstrating the limiting factors of relying on corn for ethanol.

One of nearly 200 ethanol plants constructed in the U.S. in the past decade, Cardinal raised the equity to construct its facility as local farmers bought shares at town hall-type meetings across eastern Indiana and western Ohio.

But in the past few months, all three of America's pure-play publicly owned refiners have filed for Chapter XI protection, including Aventine Renewable Energy, VeraSun Energy and Pacific Ethanol.

According to Rentschler, the Andersons, which has joint interests in 3 facilities, reported their ethanol business lost $3 million on just over $100 million of revenues in the first quarter, vs. a profit of $3.3 million in the year-earlier period. And Cardinal — though private, has about 1,200 shareholders and files quarterly reports with the SEC — recorded a loss of $500,000 on sales of $51 million in its very-first reporting period.

"Three of America's pure-play, publicly owned refiners have filed for Chapter XI protection..."

Price of Corn. The general manager of Cardinal told Rentschler in late May, that the price of corn is the industry's main problem.

July futures on the Chicago Board of Trade was $1.77 per gallon of ethanol during the first week of June, vs. $4.42 per bushel of corn, or $1.62 per gallon of ethanol. Assuming a bushel makes 2.7 gallons of ethanol, this leaves a refinery with just $.15 per gallon margin after corn cost.

"While sales of the dry distillers' grain helps (it's tied pretty directly to corn), *corn* prices over the past 2-3 years have moved in very close correlation to oil prices, so this is a tough situation for the ethanol producers. Meanwhile, natural gas, a refiner's second biggest cost, has been behaving very benignly. Overall, this isn't a pretty prospect," the analyst says.

He notes that matters become worse for producers that have lots of debt, small plants and high transportation costs if they're located on a short-line railroad.

Where's It Heading? In the near-term, Rentschler sees no real solution to the price/cost squeeze afflicting ethanol producers. "Our view is that the industry will survive via a massive shakeout. It's already started to happen."

The Renewable Fuels Assn. reports that the ethanol business is currently operating only 10.9 billion gallons of its 12.6 billion capacity. At the same time, Archer Daniels Midland soon plans to bring on line two behemoth facilities — one in Nebraska with 500 million gallons of capacity.

"These plants likely will be the last corn-ethanol facilities built in this country. We believe the pace of plant shutdown will accelerate from here," Rentschler says.

"We expect that, just as Valero picked up 7 of VeraSun's facilities on the cheap, substantial firms, maybe other oil companies, will help consolidate this industry."

Hands Off. At the same time, Rentschler says that the government needs to take a hands-off approach and allow the industry settle out. "We disagree with those that think the answer is for Washington to raise the mandated blend-rate to 12-15% from the current 10% level.

"This country has no more capacity to grow more corn. Truth is, there isn't enough corn to go around right now. As a case in point, Cardinal, we learned recently, has to out-bid nearby ethanol facilities to get ample raw material they need.

"What Washington *does* need to do, in our opinion, is not mess with either the blend rate or the import tariff on Brazilian sugar-cane ethanol. Either one could really put the corn processors on the ropes," he says.

"While the problems in the ethanol industry will likely persist for some time, our confidence in U.S. agriculture remains high over the near and long term." AEI

Big Ag Equipment Finally Feeling Effects of Recession

While strong demand for grain commodities for food and fuel has kept the manufacturers that produce big farm machinery largely insulated from the economic collapse that has pummeled nearly every other industry, one analyst believes the U.S. recession may finally be catching up with ag equipment.

Robert McCarthy, analyst for R.W. Baird, views the growing inventory of big farm equipment, along with the relatively young age of the North American fleet and projected declines in farm cash receipts as signs of a slowing demand that the industry had managed to sidestep during the past 18 months.

"While the North American ag equipment market — particularly large tractors and combines — currently remains relatively strong, we believe downside risks are increasing," McCarthy said in a note to investors after Deere & Co. reported its second quarter financials in late May.

He notes that combine demand appears relatively stable. And despite this quarter being a seasonally weak period for combine sales, retail sales during the last 3 months have accelerated. Deere, for example, reported that 95% of its combine production, which was recently bolstered by a recent 30% increase in capacity, is currently under order.

"However, both row-crop and 4WD tractor sales comparisons weakened as Deere's second quarter progressed in what is typically one of the busier selling seasons of the year, indicating that demand may have peaked early in the year," McCarthy says.

A Young Fleet. The analyst noted that reliable statistics on the average age of the current North American fleet of large agricultural equipment are meager. "But one common measure indicates that the current fleet is younger than at any time over the past 30 years."

Specifically, he cites the ratio of the last 3 years of large tractor and combine sales to the last 10 years of large tractor and combine sales, which has reached well beyond the prior peak and continues to climb.

"As such, we believe replacement demand is unlikely to support near-term ag equipment sales. It's unlikely to be a primary sales driver over the medium term."

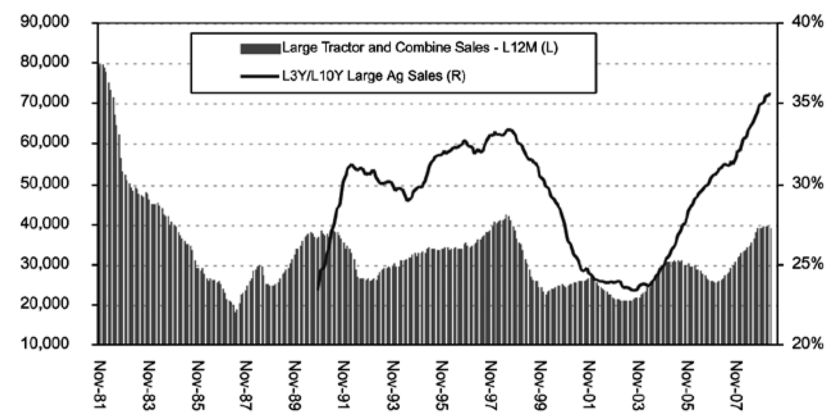
Cash Receipts Drive Sales. U.S. farmer gross cash receipts, what McCarthy calls "perhaps the best predictor of large farm equipment sales," are forecast to decline 9% in 2009 by both the USDA and Deere. This would be the largest year-to-year decline since 1971.

"Annual U.S. gross cash receipts have declined 8 times since 1975 and have been accompanied by declining retail sales of large farm equipment in 6 of the periods. The average large ag equipment decline in the 8 years featuring cash receipt declines was 9%," McCarthy says.

Growing Inventories. McCarthy also cites increasing industry inventories, which he says, implies risk of further production cuts.

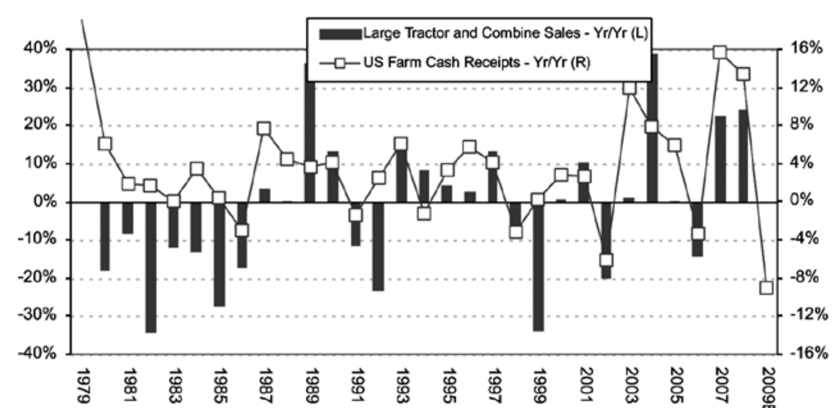
"Deere has likely reduced its North American ag equipment production plans for the second half of the year. They now project in fiscal 2009, that U.S. and Canada agricultural and turf production tonnage will be down 14% vs. expectations for a 3% production decline in ag and a 21% decline in C&CE production tonnage for the period previously. Growing industry inventories of row-crop tractors imply further production cuts could become necessary." AEI

Large Ag Equipment Sales, L12M and L3Y/L10Y



This chart compares the ratio of the last 3 years and last 10 years of large ag equipment sales and the last 12 months of absolute large ag equipment unit sales. (Source: AEM)

Large Ag Equipment Sales and US Farm Cash Receipts - Yr/Yr



Annual U.S. gross cash receipts have declined 8 times since 1975 and have been accompanied by declining retail sales of large farm equipment (combines, 4WD and row-crop tractors) in 6 of the periods. The average large ag equipment decline in the 8 years following cash receipt declines was 9%. (Sources: USDA, AEM)

Row-Crop Tractor Sales Slip 10% in May

North American combine sales jumped by 53% in May while retail sales of row-crop tractor sales continued to weaken, according to the latest report from the Assn. of Equipment Manufacturers. Row-crop tractor sales fell 10% year-over-year, while 4WD sales were roughly flat.

"Equipment inventories remain relatively low on a days-sales basis, but both 4WD tractors and especially row-crop tractor inventories continued to spike in April and incremental manufacturer production cuts appear increasingly likely," according to Robert McCarthy, analyst for R.W. Baird.

- Overall, North American row-crop tractor sales fell 10% in May, compared with a 12% decline in April. They're down 10% in the last 3-month period.
- 4WD sales were flat in May, consistent with April's comparison; sales are down 5% in the last 3-month period.
- May is a relatively average month seasonally for row-crop and 4WD tractor sales, representing 8% and 9% of annual sales of each over the past 5 years, respectively.
- Inventories jumped for row-crop and 4WD tractors in April, increasing 61% and 38% on an absolute basis and 40% and 50% on a days-sales basis, respectively. "This suggests that manufacturers will need incremental production rate cuts in these high-value and relatively higher-margined tractor categories," says McCarthy. "Combine inventories increased 25% in April on an absolute basis, but were up only slightly on a day-sales basis."
- Combine sales increased 53% year-over-year, after a 17% year-over-year increase in April. Sales are up 36% in the last 3-month period. Combine sales are typically seasonally weak in May (representing 6% of annual sales on average), though June marks the start of a 5-month period of seasonal strength.
- Comparisons for compact and mid-range tractors deteriorated further. They fell 27% and 33% year-over-year, respectively, after 25% and 26% declines in April. AEI

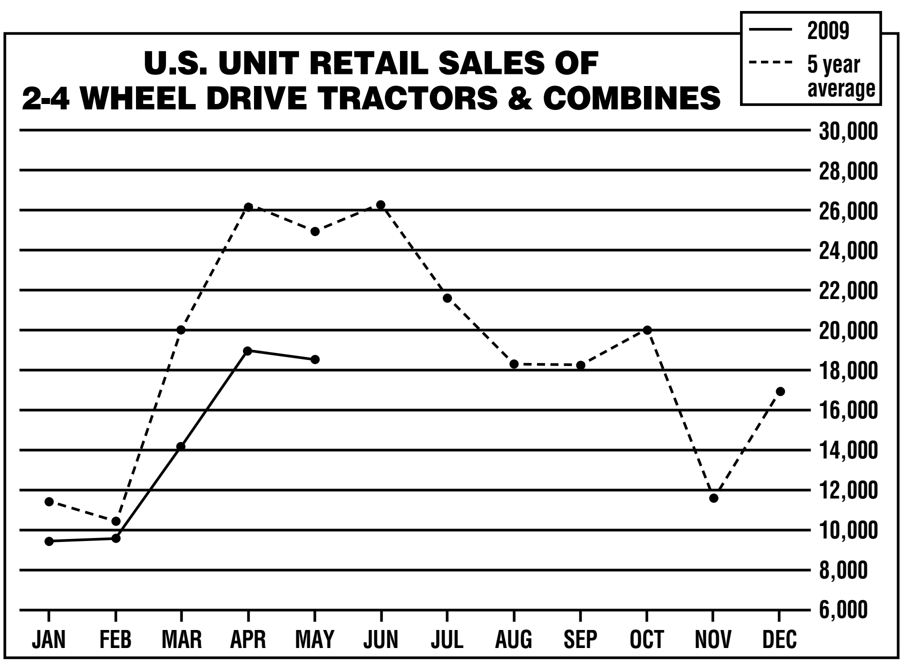
MAY U.S. UNIT RETAIL SALES

Equipment	May 2009	May 2008	Percent Change	YTD 2009	YTD 2008	Percent Change	May 2009 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	10,406	14,154	-26.5	33,813	44,813	-24.5	54,654
40-100 HP	4,931	7,379	-33.2	20,558	28,385	-27.6	32,624
100 HP Plus	2,049	2,208	-7.2	10,535	11,250	-6.4	8,315
Total-2WD	17,386	23,741	-26.8	64,906	84,448	-23.1	95,593
Total-4WD	396	327	21.1	1,770	1,643	7.7	944
Total Tractors	17,782	24,068	-26.1	66,676	86,091	-22.6	96,537
SP Combines	738	513	43.9	2,928	2,206	32.7	1,309

MAY CANADIAN UNIT RETAIL SALES

Equipment	May 2009	May 2008	Percent Change	YTD 2009	YTD 2008	Percent Change	May 2009 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,499	2,070	-27.6	4,051	5,347	-24.2	8,084
40-100 HP	584	844	-30.8	2,542	3,239	-21.5	4,450
100 HP Plus	420	525	-20.0	1,609	1,984	-18.9	1,842
Total-2WD	2,503	3,439	-27.2	8,202	10,570	-22.4	14,376
Total-4WD	117	185	-36.8	546	622	-12.2	266
Total Tractors	2,620	3,624	-27.7	8,748	11,192	-21.8	14,642
SP Combines	162	75	116.0	582	422	37.9	461

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



—Assn. of Equipment Manufacturers

of the people that I work with in the company. Mr. Lane had been a strong part of the success of many of Deere's dealerships over the past several years. He made several changes to make it highly profitable as well as creating a world-class environment that continues to create excellent equipment and great processes.

"From my perspective, it didn't come as much of a surprise if you look at his resistance to requests to return his bonus at the end of last year. While a lot of other executives returned their performance bonuses, he refused. He took the position that it was his money, he earned it and he was going to keep it. This led me to believe he wasn't looking at the job in the long term. He obviously wasn't looking to appease the stockholders."

The dealer, who also had previous experience at both CNH and AGCO, added, "From my previous experience it's evident that there is a time when a company needs an executive change, and sometimes people need a change for themselves. The tenure of CEOs appears to becoming shorter because people can only take so much of a battering and they have to back off or walk away."

Two Sides of Lane. If any group could appreciate Lane's vision for a high level of asset management and improved manufacturing productivity it was Deere stockholders. Lane initiated the company's Shareholder Value Added (SVA) metric after taking over the helm at Deere in 2000. Since that time, revenue per employee has risen to $500,000 from less that $300,000. Trade receivables remained at the same levels as those in 1995 as overall sales nearly tripled. Before it split in November 2007, Deere & Co. stock was trading at nearly $150 per share.

At the same time, Lane appeared aloof, with little or no personal contact with farmers, John Deere dealers or financial analysts.

And, of course, he didn't endear himself to many of the company's retailers with his now infamous August 2007 interview with the *Wall Street Journal* where he said that Deere and its dealers were not family. With that comment he effectively dismissed the decades-old John Deere culture that built an unprecedented level of brand loyalty for the green and yellow equipment that most other manufacturers could only dream about.

The company's aggressive stance toward consolidating its distribution channels has also resulted in a division between its once fraternal network of dealers.

While many of Deere's farm equipment retailers respected Lane and saw him as a visionary who was ahead of the times, his vision for a leaner distribution network has left other long-time dealers embittered and angry as they realize they may not be John Deere dealers in the future. Some insist Deere is adapting a modified version of the Caterpillar model of distribution. Cat has only about 60 dealership groups covering all 50 states.

One former Deere territory manager that spoke with *AEI* remarked, "I personally liked Mr. Lane, but he allowed some lieutenants to do short-term things that drove stock values up — temporarily — while driving dealer and employee morale to new lows — more than temporarily. The predictable results were market-share loss and unsustainable profits once ethanol and commodities found their market levels."

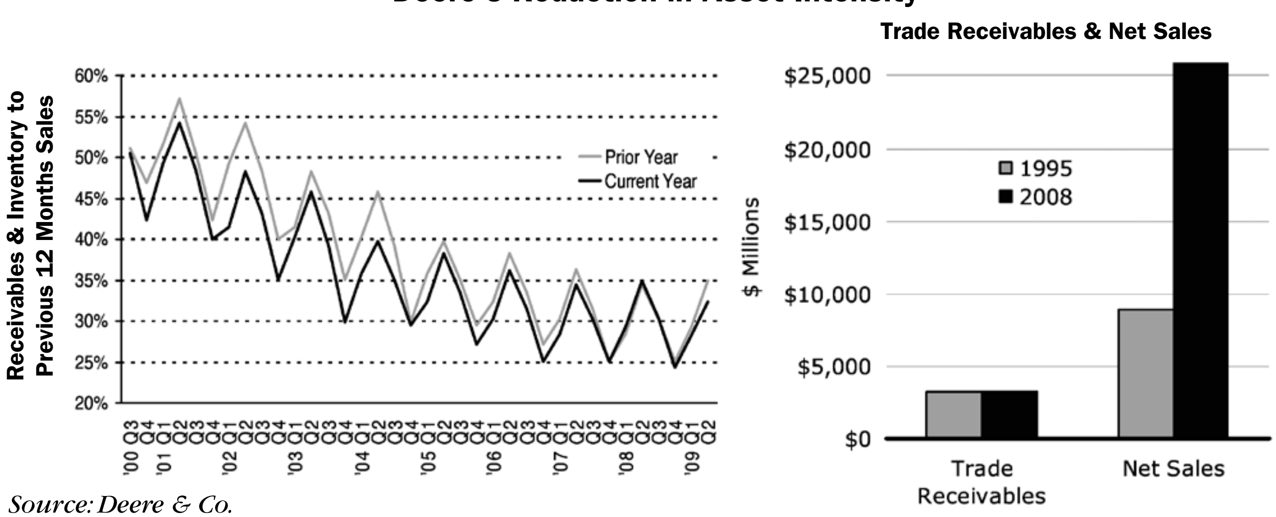
Some dealers have also begun to question Deere's commitment to quality engineering. With a "not-invented-here" internal culture, they note that the company was years behind in adapting rotary technology with its combines. Others say that when it comes to four-wheel drive tractors, Deere comes in third behind Case IH and AGCO.

It's too early to tell whether or not Deere's new chief will take a different view of dealer consolidation, but it's doubtful. It appears the die is cast in the direction of far fewer dealer-principles in the future and those who find themselves on the outside of the "chosen" group will probably need to plan accordingly. **AEI**

Estimated North American Farm Equipment Dealers — 2005 & 2009
(by major manufacturer)

	2005	2009
AGCO	1,917	1,400
Case IH	1,400	950
John Deere	1,578	900
New Holland	1,157	1,100

Deere's Reduction in Asset Intensity



Source: Deere & Co.