From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

July 15, 2009
Vol. 16, Issue 3

- U.S. Sales Slowing
- EU Orders Decline
- Who Could Buy CNH?

Why an AGCO-CNH Hook Up is Highly Unlikely

As intriguing as an AGCO-CNH merger sounds, don't count on it any time soon.

In late June, Reuters News Service reported that, "The chief executive of AGCO Corp. the world's third-largest maker of farm equipment, said he was "very interested" in the possibility of doing a major M&A deal in North America if it would expand the company's "modest" market share in the region.

During an exclusive interview, Martin Richenhagen, AGCO's chairman, chief executive and president, reportedly said, "We are in a rather modest position in North America. If we could do a major deal in North America, we would be very interested in doing something like that."

From there, the report lays out a scenario that sees AGCO and CNH joining forces to become the largest supplier of farm machinery in the world, but still in second place to John Deere in North America.

CNH, which is comprised of two big names in the world of ag machinery — Case IH and New Holland — is owned an operated by Fiat of Italy. Fiat recently took over Chrysler, essentially for free, and is now working on a deal that may land them GM's Opel of Germany.

It wasn't that long ago that Fiat's top exec, Sergio Marchionne, was intent on getting out of the auto business altogether. But no buyers and other political realities stymied Fiat's exit out of automotive. Since then, Marchionne has repeatedly said that within a very few years there will only be 5 or possibly 6 automakers worldwide. With his takeover of Chrysler and ongoing pursuit of Opel, it appears he intends for Fiat to be one of those.

Fiat Needs Cash. To pull it altogether, the London-based Max Warburton, senior analyst for Bernstein Research, has maintained that Fiat is going need cash, which could include the sell off of either or both of two of Fiat's prized jewels, CNH Global and Iveco, its European truck manufacturing operation.

In an April commentary, Warburton said, "But if Fiat is to put its products into U.S. plants, drive a shared product plan and restructure this vast group of businesses, surely it will need capital. Fiat at year-end '08 had only $3.6 billion of industrial

Continued on page 8

A Mid-Year Look at Ag Equipment Worldwide

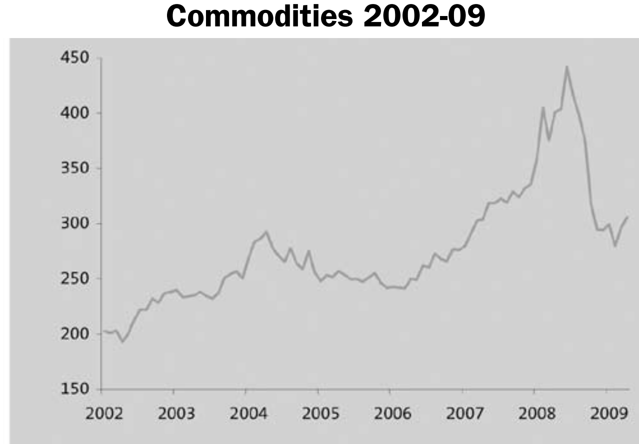
Looking back to this time to 2008, it was the year that the planets and stars lined up for the farm equipment industry worldwide and gave almost everyone involved something to take home. The only downside was the shortage of new equipment that plagued dealers as the major U.S. and European manufacturers strategically sought to establish their places in the rapidly expanding overseas markets.

Driven by burgeoning demand for food and fuel, the bubble of grain prices also reached its full measure by late summer. In July '08, USDA raised its marketing year average price received by producers to $5.50 to $6.50 per bushel for corn — it would soon surpass $7 a bushel — and $12 to $13.50 for soybeans.

As the industry turns the corner on the second half of 2009, it's clear that the planets are resuming their normal orbits and the stars aren't shining quite a brightly as they did last year at this time. The uncertainty of the worldwide financial and economic recession has finally begun to slow the momentum of several years of expansion in the ag equipment business.

This edition of *Ag Equipment Intelligence* examines the current state of the worldwide farm equipment business as well as the trends that will shape machinery sales for the remainder of the year and into 2010. AEI

Price Index For 10 Worldwide Food Commodities 2002-09



Source: Commodity Research Bureau (USA), Index for 10 food commodities

After an 18% Rise in '08, Worldwide Ag Equipment Sales Slide Back to '07 Levels

The steep rise in worldwide commodity prices that started in late 2007 and kicked into overdrive by mid-year '08 also fueled a dramatic growth the sales of farm machinery. According to its most recent economic report, the Agricultural Machinery Assn., VDMA, headquartered in Frankfurt, Germany, estimates that worldwide sales of ag equipment reached $93.6 billion last year, an increase of 18% compared with sales in '07.

The association reports that worldwide tractor production reached 1.5 million units last year, while sales of combines grew by 9,000 units to 47,000.

Despite signs of the impending financial crisis, demand for farm machinery accelerated in all major regions of the world and shortages of new equipment appeared to be the industry's biggest challenge. Global trade of ag equipment rose by 19% throughout the year to more than $53 billion. Germany, U.S., Italy, France and China, respectively, were the main beneficiaries as the top exporting countries.

With a weak dollar, the U.S. benefited more than most, increasing its exports of farm machinery by one-third in value on a dollar basis and 23% in euros, according to VDMA.

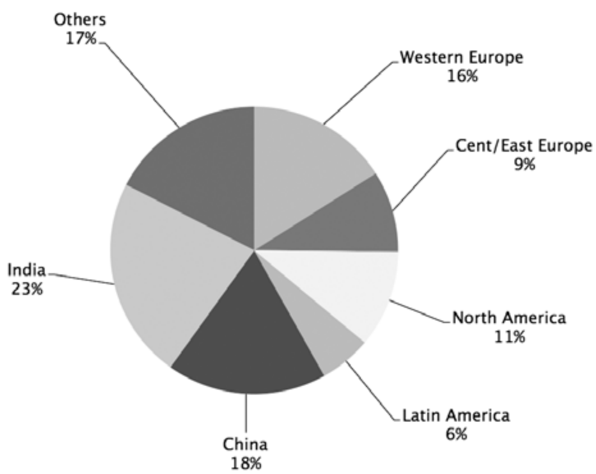
While sales in the early part of 2009 were buoyed by a strong pre-selling season in previous fall as well as pent-up demand caused by the equipment shortages of 2008, the robust sales of last year were clearly losing their momentum in certain regions by the second-quarter of the year. Most forecasts have sales of farm equipment slipping back to the levels seen in 2007, which generally still bodes well for the industry.

AGCO, the world's third largest ag machinery manufacturer, reported a 11.5% drop in worldwide net sales in the first quarter of the year. CNH, global parent of Case IH and New Holland, said its worldwide sales of farm equipment fell during the first 3 months of the year by 12%. John Deere reported on May that worldwide ag equipment sales fell by 4% in its most recent reporting period.

For the full year, Deere expects worldwide farm machinery sales to slip by 14% for the full year. Both AGCO and CNH see sales declining in the range of 15-20%.

This is in line with VDMA's outlook that suggests that about a 15% drop in sales from German manufacturers in 2009 compared with the previous year. In its view, the association says, "This decrease is still moderate because the invoice amounts of the manufacturers remained high until the spring due to the order backlog from the previous year. The economic downswing will accelerate in the second half of the year." AEI

Worldwide Production of Tractors — 2008



Worldwide tractor production reached 1.5 million units last year, while sales of combines grew by 9,000 units to 47,000.

U.S. Equipment Sales to Continue Slowing in Second Half

U.S. sales for all classes of tractors during the first half of the year fell more than 20% compared with the same period of 2008. If you take the 100-horsepower and under units out of the equation, it's a different story, but, of course, this is where you'll find the highest unit volumes. During the January through June period of 2009, unit sales of all two-wheel drive tractors were down 22.2%, according to the latest figures from the Assn. of Equipment Manufacturers.

Through the first 6 months of the year, U.S. unit sales of row-crop (100 horsepower and over) and four-wheel drive tractors was off by only 5.2% — 14,388 vs. 15,187 — compared with the pace set in 2008. This trend is expected through the remainder of the year as the volatility of commodities keeps growers guessing about where they'll end up by harvest time.

Nonetheless, it would have been difficult to maintain the level of sales experienced in the last two years under any circumstances.

Through the first 6 months of last year, total tractor sales totaled 108,515 units. Through the first 6 months of this year, sales stand at 85,024, a falloff of -21.6%. While

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two-wheel drive row-crop units (100 horsepower and higher) are only -6.9% off during the same period of '08, sales of four-wheel drive equipment are up 5.7% for the first half of 2009.

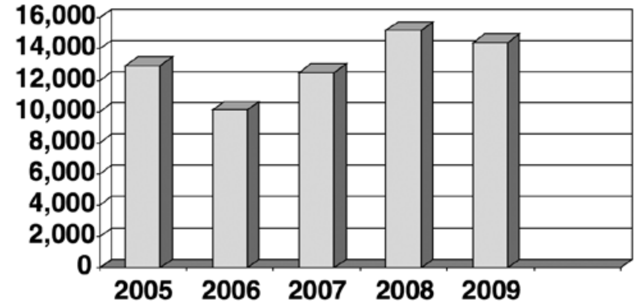
The most significant declines continue to be experienced by the under-40 horsepower tractors and the 40-100 horsepower units, which declined by 22.9% and 26.6% respectively, compared with the January through June period of 2008.

On an industry basis, Deere expects farm machinery sales in the U.S. and Canada to be flat to down slightly for the year. CNH's outlook calls for a year-over-year falloff of 15-25% for all equipment despite continuing strength in high-horsepower tractors and combines.

If the current trend of tractor sales were to continue for the remainder of this year, total sales would come in about 9% less than levels seen for all of last year. But the trend is expected to speed up as the backlog of pre-sells and unmet demand from last year dissipated during the first quarter.

Another trend to watch is for the continuing consolidation of dealer networks as marginal dealers that were able to maintain profitability during the past two years of high sales get squeezed by the downshift in the farm economy. AEI

U.S. Sales of Row-Crop & 4WD Tractors 2005-09 (January - June)



Through the first 6 months of 2009, U.S. unit sales of row-crop and four-wheel drive tractors fell by 5.2% compared with 2008.

Art's Way Farm Equipment Sales Rise 22% in First Half

With the integration of the Miller Pro product line, which was acquired in September 2007, finally complete, sales of farm machinery by Art's Way Manufacturing increased by 21.7% in the second quarter of 2009 compared with the same period a year ago.

Net sales of ag equipment for the quarter rose to nearly $6.2 million vs. $5.1 in the second quarter of 2008.

For the six months ended May 31, net sales of its farm equipment rose 18.3% to $13.8 million, compared to $9.2 million a year earlier.

The company credited increased sales of forage boxes and rakes from the Miller Pro line for much of the improved sales levels. It noted that sales of this equipment during the first half of fiscal 2008 were minimal.

Overall, Art's Way consolidated net sales, which includes the company's pressurized vessels, modular buildings and farm machinery, were down 4% during the first half of the year to $13.8 million, compared with $14.4 million for the same period in '08.

Operating income was also down 79% for the period. AEI

July S&D Crop Report 'Bearish'

USDA issued its monthly update to the supply and demand outlook for the 2009-10 crop year on July 10. It revised ending corn inventory expectations upward to 1.55 billion bushels and revised its corn price outlook lower to $3.75/bushel. The ag agency left its soybean inventory outlook mostly unchanged but revised its soybean price outlook lower to $9.30/bushel. "As such, we view the report to be bearish for 2009-10 cash receipts, as we now expect the total major crop receipts — corn, wheat and soybeans — for the current crop year to be down 8% year-over-year to $93.4 billion," say Ann Duignan, analyst for JP Morgan.

FARM MACHINERY TICKER (AS OF 7/13/2009)

Mfr.	Symbol	7/13/09 Price	6/11/09 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	$26.21	$28.71	$63.14	$14.62	6.71	1.43 M	2.42 B
Alamo	ALG	$10.91	$10.87	$23.47	$9.22	11.19	26,326	108.82 M
Art's Way	ARTW	$4.16	$5.79	$19.52	$2.90	12.24	11,959	16.58 M
Caterpillar	CAT	$31.80	$37.61	$75.87	$21.71	7.80	13.37 M	19.13 B
CNH	CNH	$12.22	$17.14	$40.50	$5.69	4.94	449,669	2.90 B
Deere	DE	$36.59	$45.08	$73.57	$24.51	9.79	5.55 M	15.47 B
Kubota	KUB	$39.36	$37.69	$43.01	$17.72	19.29	37,904	10.01 B
Titan Machinery	TITN	$11.16	$14.12	$29.80	$7.50	12.04	349,438	197.86M

European Union: Confidence Slipping as Orders Decline

As a trading bloc, the European Union is the largest manufacturer of farm equipment in the world. In 2008, total equipment sales from the EU amounted to $38.6 billion, up 16% vs. 2007, according the VDMA's latest economic report. According the German Agricultural Machinery Assn., 2009 is not expected to produce similar results as "many Western European manufacturers have focused on the development of the Eastern European markets in the past years."

With sales volumes highly dependent on exports, the disappearance of the Russian market will markedly affect these manufacturers. VDMA's forecast calls for Europe-wide sales to decline by 15% to $33 billion.

The outlook for the countries comprising the "old" EU, or EU 15, is for 10% decrease in sales of farm equipment in 2009, while the newer EU member countries are expected a drop of 25% in sales for the full year.

Tractor production in the European Union, which accounts for more than one-third of the total industry sales, increased by 10% to 255,400 units in 2008. With the trend toward the growing use of higher powered tractors, value of '08 shipments rose by 15% to € 10.1 billion. VDMA notes that in past months, production capacities have been reduced due to fall demand and estimates that unit sales will likely drop 10-15% to about 225,000 units in 2009.

In its June survey of equipment manufacturers, CEMA, the European Committee of associations of manufacturers of agricultural machinery, reports that more than 20% of those polled have seen a significant decrease in orders booked compared to the previous year. Of the companies surveyed, 65% see business levels eroding throughout 2009.

Ann Duignan, machinery analyst for JP Morgan, noted in her June commentary that farmer sentiment in Europe is deteriorating. "On a recent trip to Europe we got the sense that the situation in Europe is worse than in the US. European worries predominantly stem from two key issues: lower prices for many commodities and the constriction in credit. Given the highly fragmented nature of the industry in Europe, as well as extreme competition in the food retail industry, a much greater number of producers are adversely impacted. For example, milk prices have fallen by as much as 38% over the past year and the competition at the food retail level is extreme."

Germans See 10% Drop. After a full-year increase of 23% in 2008, the agricultural machinery market grew by another 18% in the 3 months of 2009. By the end of the year, the VDMA expects a decline of 10% to $5.7 billion.

France Remains a Net Importer. Despite being one the EU's major producers of farm machinery — it sold 30% more tractors in 2008 than Germany — with 500,000 farmers the country remains a net importer of ag equipment. It's expected that the falloff in sales for the remainder of the year will be larger than that forecast for Germany.

British Market Turns Soft. The British market for farm equipment grew by 13% to $3.6 billion in 2008. This was the single highest level of sales in the U.K. for more than a decade. The number of tractor registrations grew by 10% last year and remained strong through the first quarter of 2009. Equipment manufacturers expect the market to deteriorate for the remainder of the year, probably at a higher rate than that of either Germany or France.

Romania & Bulgaria Show Promise. As the economies of Eastern Europe and the Commonwealth of Independent States (CIS) crumble last fall, the ag equipment business went down them. But according to VDMA, the new EU member countries Romania and Bulgaria "are providing a ray of hope this year."

Not only did the farmers in the two countries experience a significant improvement in grain and oilseed production in 2008, those markets are also the beneficiaries of well-funded subsidy programs aimed at improving agricultural production.

EU programs for farm modernization, amount to nearly $1.4 billion in Romania and about one quarter of that in Bulgaria. When these subsidies take full effect, VDMA estimates that the Romanian ag equipment market has the short-term potential to exceed the volume of all other markets in Central Europe. "In the long run, Romania can become the second most important market in the region after Poland." AEI

Unit Sales of Farm Machinery

France	2005	2006	2007	2008
Tractors	37,501	35,073	35,083	40,716
Combines	1,754	1,850	1,960	2,671
Balers	6,500	5,323	5,396	6,411
Forage Harvesters	340	277	303	377
Mowers	2,934	2,677	2,567	2,437
Trailers	21,420	20,900	20,700	21,300

Source: Axema

Germany	2005	2006	2007	2008
Tractors	23,492	29,015	28,451	31,250
Combines	2,228	2,206	1,937	2,365
Balers	2,214	1,957	2,012	2,592
Forage Harvesters	481	504	499	524
Mowers	10,701	10,982	11,261	11,895
Tedders & Rakes	9,520	9,614	9,514	10,366

Source: VDMA

United Kingdom	2005	2006	2007	2008
Tractors (>40 hp)	13,301	13,874	15,540	17,104
Combines	640	555	730	1,065
Balers	1,533	1,510	1,650	2,000
Forage Harvesters	114	117	110	140

Source: AEA

South America & Brazil: Poor Credit Plagues Equipment Sales

Poor financing conditions continue throughout South America continues to challenge farmers and equipment makers alike. Despite investment help from the government, it's not expected that farm equipment sales will see any meaningful improvement through 2009. The Brazilian ag equipment market weakened further in June.

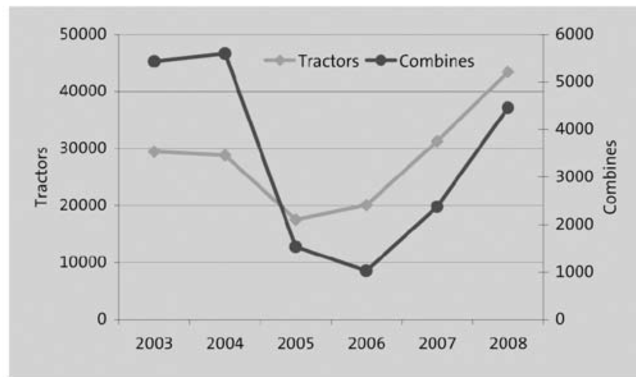
According to sales data from Associação Nacional dos Fabricantes de Ve'culos Automotores (ANFAVEA) in Brazil, June unit sales of tractors were 3,534 units, down 16% year-over-year. This followed a weak May when sales dropped 12% as well as a 9% decline in April.

Brazilian combine sales reached 115 units in June, down 56% year-over-year compared with May, when sales fell by 39% and April when sales that were down 29%.

According to Ann Duignan, analyst for JP Morgan, the ongoing challenges faced by farmers in Brazil — a weak macro environment, tight credit and unfavorable currency — continued to pressure the sales of agricultural equipment in June.

"The Brazilian government's recently announced finance package of $108 billion, 38% higher year-over-year, should aid the industry going forward; however, we anticipate limited benefits to equipment sales in the near term given the weak credit standing of farmers today. Tractor sales remain better than combine sales on a relative basis, likely supported by government support for small farmers, in our view. Weak combine sales clearly reflect weaker soybean crop income," says Duignan in her July 6 commentary. AEI

Brazil Tractor & Combine Sales 2002-08 (000s of units)



Source: Anfavea

Since peaking in 2008, sales of tractors and combines in Brazil have declined dramatically throughout 2009.

Chinese Market for Ag Equipment to Grow 6.8% a Year Through 2012

Demand for farm machinery in China is expected to grow to $17.3 billion in 2012, according to a new study from the Beijing office of The Freedonia Group, a Cleveland-based industry research firm. The 6.8% annual growth is also easily outpace growth in most other parts of the world. Gains will be supported by government efforts to speed up agricultural mechanization as well as rising income levels rise in rural areas.

Changing demographics in the country will also play a significant role as increasing numbers of rural population migrate to urban areas, putting pressure on equipment to replace a smaller agricultural labor force.

According to the study, increased government subsidies for agricultural equipment purchases and technological improvements in part due to sustained foreign direct investment will also contribute to product gains. However, advances will be constrained to some degree by short-term declines in agricultural product prices and improvements in the quality of domestically made equipment, which is expected to reduce replacement demand.

Agricultural Equipment Demand In China (millions of yuan) % Annual Growth

	2002	2007	2012	2002-2007	2007-2012
Agricultural Equipment Demand	43,800	85,000	11,8000	14.2%	6.8%
Farm Tractors	13,300	29,000	40,600	16.9%	7%
Harvesting Machinery	10,70	19,500	27,350	12.8%	7%
Tillage Machinery	6,340	8,805	10,750	6.8%	4.1%
Planting & Fertilizing Machinery	2,180	3,400	4,650	9.3%	6.5%
Other Ag Equipment	5,245	9,045	12,350	11.5%	6.4%
Parts & Attachments	6,035	15,250	22,300	20.4%	7.9%

The study also points out that reduced profitability of grain farming and the small size of household farms will prevent agricultural equipment demand from growing at a faster pace.

Tractors accounted for 34% of overall Chinese agricultural equipment demand in 2007 and will remain the largest product category through 2012. Growth in the sale of tractors is being spurred by growing demand for large tractors from collectives and large farms along with the increasing affordability of small tractors for household farms.

The new study maintains that demand for harvesting equipment will also grow at an above average pace, stimulated by government subsidies aimed at promoting their use and by purchases of higher priced combines. AEI

Manufacturers Cast a Wary Eye on Russian Market

Ag equipment manufacturers are continuing to keep on eye on the Russian market, which deteriorated for exporters this year after Russian Prime Minister Vladimir Putin imposed loan restrictions and tariffs of as much as 25% on foreign-made farm machinery.

While Putin's tariffs were meant to boost domestic production and keep Western technology out of Russia, Russian manufacturers still want Western technology and are purchasing Western companies to get it.

Russian engineering group Concern Tractor Plants (CTP) began investing in Western farm implement technology by acquiring the Austrian tillage and seeding equipment firm Vogel & Noot Landmaschinen from private owners.

The move follows the 2007 acquisition of Canada's Buhler Industries by Rostselmash, the leading harvest equipment manufacturer in Russia.

CTP has also teamed up with AGCO to produce Sisu diesel engines in Russia and is distributing Same Deutz-Fahr heavyweight tractors in the blue-and-white colors of its AgromashHolding unit.

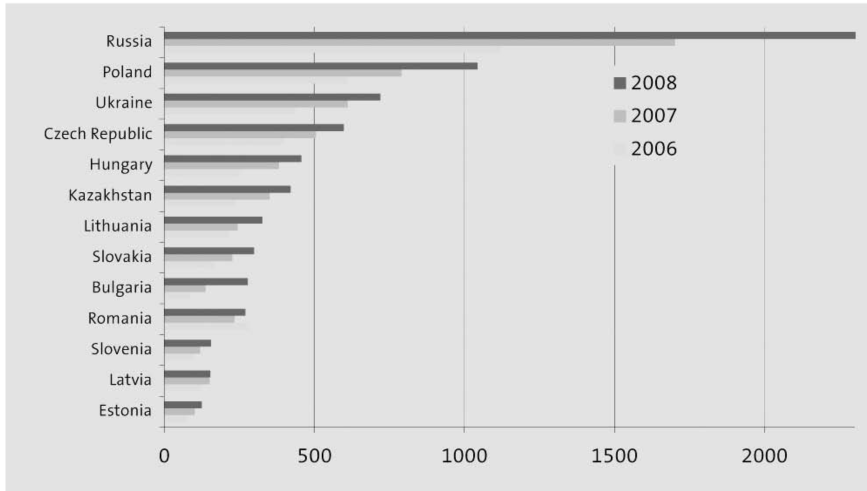
Putin Assessing Moves. Putin was planning a visit this month to the Rostelmash harvester-making plant in the Rostov region. The plant's production output accounts for 17% of the world and 65% of the Russian market of agricultural machinery.

"The main purpose of the forthcoming trip is to get acquainted with the implementation of decisions made in December 2008 and to assess the efficiency of measures to support the industry," the Russian press agency Itar-Tass said on July 6.

Export Market Affected. While Russia makes moves to help its own country, exporters have seen their sales in Russia plummet.

According to estimates from the Russian association Soyuzagromash from the middle of 2008, the volume of the Russian agricultural machinery market amounted to $4.7 billion, and the share of the Russian manufacturers accounted for 35% or approximately $1.7 billion.

Equipment Imports to Central and Eastern Europe (in 000 of euro)



Source: National statistic agencies, estimations for Ukraine and Kazakhstan

The rapid increase in imported ag machinery to Russia between 2006 and 2008 will come to a halt in 2009 as tariffs take their toll.

But the economic and financial crisis downright throttled the dynamic development in Russia.

A 2009 economic report from VDMA says German exports to Russia reached a record level of $716 million in 2008. But a slump in the last quarter of 2008 additionally contributed to the slower growth of the Russian market as compared to the previous years with an increase of "only" 18%. Exports from other EU countries grew to a similar extent, while exports from North America increased even more due to the advantageous exchange rate.

In North America, Deere & Co. and Caterpillar Inc. were both hit hard by Putin's tariffs and loan restrictions. Loan restrictions have more than doubled borrowing costs for farmers willing to buy foreign machinery, said Samuel Allen, Deere's COO and president, in a recent interview with *Bloomberg* in Moscow.

But Deere may invest about $500 million in Russia during the next five to seven years, Allen added. Deere has a production unit in Orenburg and is developing an $80 million project in Kaluga, where it may also build a production plant. The company and its dealers employ about 2,000 people in Russia.

"We'd look at investing in a manufacturing facility that's stamped 'Russian-made' for all of our businesses," Allen said.

Growth in Emerging Markets. Despite the current crisis, the demand for modern machinery in Russia will remain high in the long run, the VDMA report says.

In July, Putin said Russia had no plans to extend farm machinery tariffs beyond the "severe" phase of the economic crisis. According to Allen, international producers expect the Russian government to eliminate import tariffs and provide support for companies who set up assembly lines in Russia, in the way it supports carmakers.

Allen told *Bloomberg*, that Russia and other former Soviet states, as well as Brazil and Argentina present "significant opportunities and the rate of growth will be much more accelerated there in comparison to that of the Western world," he said.

Allen said he plans to "capture a lot of the growth that will be going on in the agriculture around the world over the next 20 years" once he becomes CEO. AEI

Equipment Sales Mixed in June

North American retail sales of farm equipment varied in June, according to the latest figures from the Assn. of Equipment Manufacturers. "Compact tractor sales declines moderated and combine sales growth remained strong, but slowed sequentially," says Robert McCarthy, analyst for RW Baird. "Four-wheel drive tractor sales were flat in June and the last 3-month period, while row-crop tractor sales fell 7%, after being down 10% in May. Absolute inventories of large farm equipment continue to surge and are approaching historical averages on a days-sales basis, suggesting further downward pressure on manufacturer production rates."

• North American row-crop tractor sales fell 7% year-over-year in June, compared with a 10% decline in May, and are down 10% in the last 3-months.

• Four-wheel drive sales were flat in June, consistent with May's comparison; sales were also flat in during the last 3 months.

• June is a relatively average month seasonally for row-crop and four-wheel drive tractor sales, representing 9% and 8% of annual sales of each over the past 5 years, respectively.

• Inventories continued to climb for row-crop and four-wheel drive tractors in May, increasing 70% and 45% on an absolute basis and 53% and 19% on a days-sales basis, respectively. This confirms manufacturers need to incrementally cut production in these relatively higher-margined categories. Combine inventories increased 33% in May on an absolute basis, but were up only 7% on a day-sales basis.

• Combine sales growth slows to 19% year-over-year, after a 53% year-over-year increase in May; sales are up 28% in the last 3-month period. June is the first of 5 consecutive seasonally important months for combine sales and has averaged 10% of annual sales over the past 5 years.

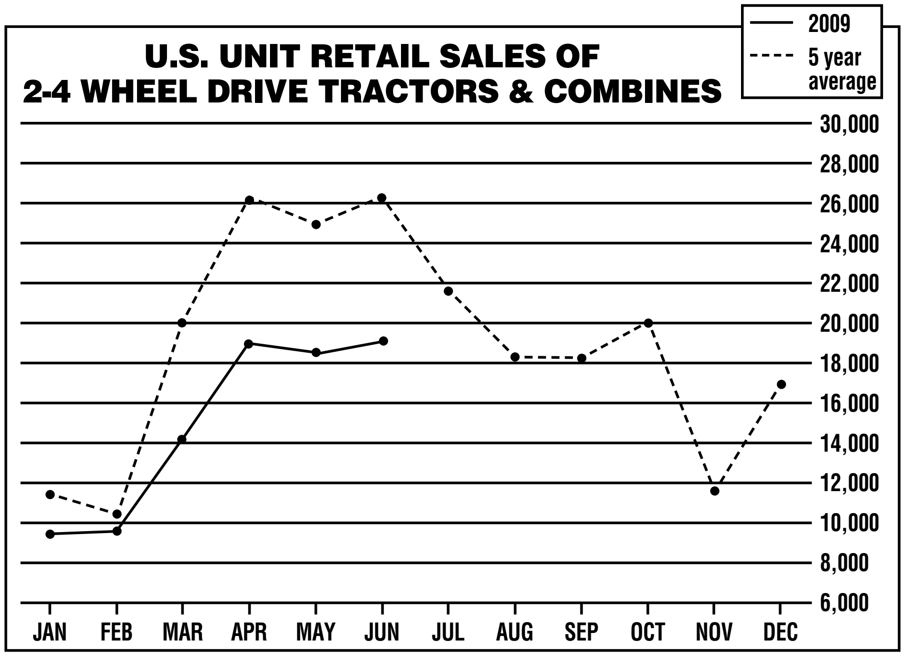
• Comparisons for compact (under 40 horsepower) and mid-range (40-100 horsepower) tractors remain weak, falling 20% and 21% year-over-year, respectively, after 27% and 33% declines in May. AEI

JUNE U.S. UNIT RETAIL SALES

Equipment	June 2009	June 2008	Percent Change	YTD 2009	YTD 2008	Percent Change	June 2009 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	10,270	12,594	-18.5	44,260	57,414	-22.9	50,772
40-100 HP	5,847	7,530	-22.4	26,376	35,914	-26.6	31,389
100 HP Plus	1,795	1,978	-9.3	12,318	13,229	-6.9	8,429
Total-2WD	17,912	22,012	-19.0	82,954	106,557	-22.2	90,590
Total-4WD	301	315	-4.4	2,070	1,958	5.7	958
Total Tractors	18,213	22,417	-18.8	85,024	108,515	-21.6	91,548
SP Combines	945	786	20.2	3,873	2,992	29.4	1,443

JUNE CANADIAN UNIT RETAIL SALES

Equipment	June 2009	June 2008	Percent Change	YTD 2009	YTD 2008	Percent Change	June 2009 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,369	1,903	-28.1	5,443	7,250	-24.9	7,662
40-100 HP	715	828	-13.6	3,253	4,067	-20.0	4,391
100 HP Plus	432	428	0.9	2,039	2,412	-15.5	1,929
Total-2WD	2,516	3,159	-20.4	10,735	13,729	-21.8	13,982
Total-4WD	135	120	12.5	682	742	-8.1	235
Total Tractors	2,651	3,279	-19.2	11,417	14,471	-21.1	14,217
SP Combines	334	285	17.2	916	707	29.6	742



—*Assn. of Equipment Manufacturers*

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gross cash, $8.4 billion of net debt and no committed credit lines. Its funding options look limited (junk status, $13.4 billion of total refinancing due by end of 2009 — although most of this is bank debt or ABS)."

Warburton concludes that for Fiat to pull off its automotive coup, it will need to sell either CNH and/or Iveco, both of which produce far more cash than Fiat.

Enter AGCO. With all that happening, the Reuters' story played right into the scenario. Unfortunately, several major obstacles would stand in the way of an AGCO-CNH get together. First, an AGCO-CNH merger would present huge anti-trust issues in Europe.Their combined 2008 overseas sales more than doubled those of John Deere. It's doubtful that the EU would let it stand as a pure merger. And note that Richenhagen focused his comments on North America.

In his analysis, Warburton also speculated about possible buyers for CNH and concluded, "We see few industrial buyers —AGCO and Japanese competitors look too small to acquire it easily and Deere would obviously be prevented by anti-trust."

Some have suggested that New Holland and AGCO may be a good fit. It's also difficult to see how this combination could work for either party.

Both are top dogs in hay and forage as well in the small tractor segments of the ag equipment business. Would dominating one or two smaller parts within the big market be the real game changer that Richenhagen is looking for?

A former Case IH executive that lived through the Case IH-New Holland merger a decade ago told *AEI* that he doubts that it would be practical considering how enmeshed the manufacturing operations of the two brands have become.

AGCO & CE. Would AGCO be interested in acquiring the construction equipment business of CNH?

Shortly after Bob Crain left New Holland to take over the helm of AGCO's North American operations in 2006 he told AEI that AGCO was not looking to get into the construction equipment business. This isn't surprising since even Case and Deere have trouble competing with the Caterpillar's and Komatsu's in that business. Besides, AGCO already has a relationship with Cat dealers through its Challenger brand of ag equipment.

On the other hand, New Holland has a nice line of compact construction equipment — skid-steer loaders, track loaders, etc. — that more farm equipment dealers have begun carrying. But it's difficult to see how slicing off a small part of New Holland would be of much help to Fiat.

Never Say Never. With all the obstacles — money, political and otherwise — that AGCO would have to overcome to pull CNH into its fold, it doesn't look possible or practical at this point in time — but we never say never. Bob Ratliff and Martin Richenhagen didn't build AGCO into the third largest ag equipment manufacturer on the globe by thinking along conventional lines. AEI

What Is CNH Worth? Who Could Acquire It?

In his April commentary, Max Warburton, senior analyst for Bernstein Research, asserts that with Fiat's need for cash to integrate its newly acquired Chrysler business and possibly even GM's Opel, it will likely need to sell either its CNH ag equipment bushiness or Iveco truck manufacturing operations.

"We see a growing risk that CNH and Iveco may need to be sold to fund subsequent investment or stake increases," says Warburton.

What is CNH Worth? In his research, Warburton shows possible values for CNH based on peer group multiples. But he points out, "We emphasize that CNH's current market capitalization is under $4.2 billion. CNH also had $2.8 billion of net industrial debt and OPEB (other post-employment benefits) of $2.1 billion at year-end 2008. Were Fiat to sell CNH, clearly it would only receive proceeds on the equity portion of the company's value."

At current market capitalization, he estimates that CNH's value is under $4.2 billion; at peer group multiples, $7-11 billion. But are there buyers?

"These are not great times to sell businesses, although one might argue that the agricultural cycle is not in the doldrums at present. The big issue is a lack of firepower — or anti-trust issues — for industrial buyers," says Warburton.

CNH Valuation Based on Construction/Agricultural Equipment Multiples

	Million $
CNH 2008 Sales	17,800
CNH 2008 EBITDA	2,056
CNH 2008 EBIT	1,567
CNH Current Market Cap	3,473
CNH Peak Market Cap	17,669

Who Can Afford to Buy CNH?

Million $

	Market Cap	Net Industrial Cash (Debt)	Pensions and OPEB
Daimler	35,869	4,051	(8,102)
Caterpillar	19,833	(6,855)	(10,565)
Deere	16,787	(1,562)	(2,003)
Komatsu	13,383	(4,826)	(385)
Kubota	8,413	(3,019)	(482)
AGCO	2,213	(187)	(181)