From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

September 15, 2007
Vol. 14, Issue 5

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Bullish Dealers See Strong 2008 Equipment Sales

Coming off an already strong year that has seen retail sales of row-crop tractors increase 32% on a year-to-year basis through August, North American equipment dealers say they see even better prospects for 2008.

Nearly 90% of the 508 dealers that responded to *AEI's* just-completed 2008 Dealer Business Trends Survey expect sales revenues from new equipment to be as good or better than in 2007. Of these, 44.6% project sales to grow between 2-7% and 15.6% are forecasting increases of more that 8%.

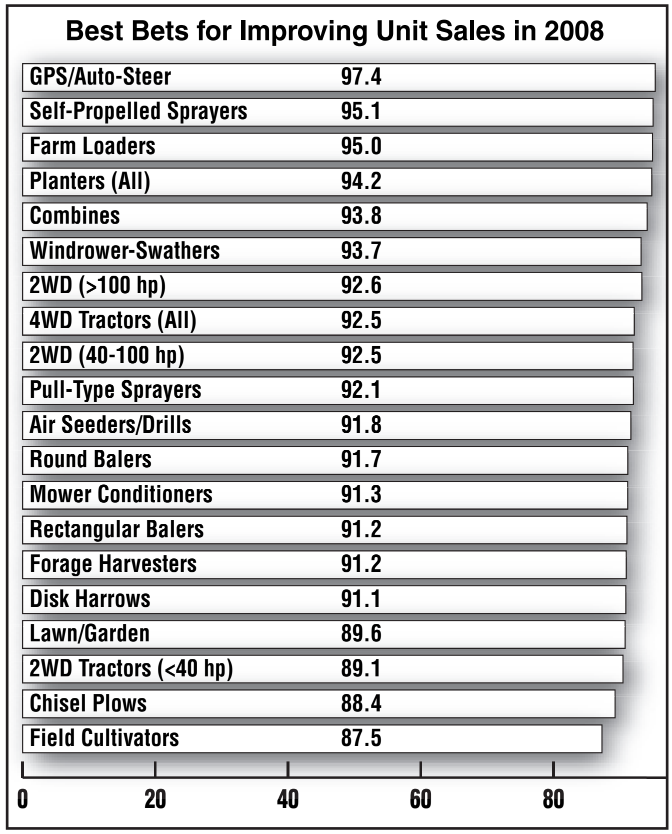
The dealers also see the revenues from the sale of used equipment increasing in '08, as 92% of the respondents expect sales to be at least as good or better than this year. Nearly 38% of the respondents project used equipment revenues to improve from 2-7% and 15.5% are forecasting increased revenues of 8% or more.

Best Prospects for '08. It's difficult to find a product category that dealers aren't enthused about for next year. As in 2007, dealers see GPS and autosteer equipment and systems holding the most potential for enhancing revenues with 97.5% of respondents forecasting as good or better sales levels in '08.

In fact, only four product categories slipped below the 90% "good or better for '08" ranking — lawn and garden, 2WD tractors (<40 hp), chisel plows and field cultivators. Last year, only 1 product category surpassed the 90% "good or better" ranking.

The 2008 report also breaks out what market segments are generating the highest revenues for ag dealers.

The complete report with breakouts by state, province, employment size and equipment supplier will be sent to *AEI* subscribers in mid-October. AEI



More than 500 dealers ranked equipment categories as "best bets" for improving sales in 2008. The numbers represent the percentage of respondents that believe their unit sales will be "as good or better" than in 2007.

Deere's New Product Rollout Impressive, But is It Playing in Peoria?

John Deere rolled out its new product lineup for dealers, financial analysts and the media in Cincinnati, August 22-23. The show was spectacular, replete with smoke machines, musicians performing from platforms suspended from the arena's ceiling and dozens of new green machines — both large and small — coming at the audience from all directions.

Afterward, analysts wrote that the number and type of new machines that Deere presented impressed them. But it was difficult discerning how the rollout played with the dealers. Those that *AEI* spoke with during the meeting seemed distracted by other issues.

They loved it in New York, but will it play in Peoria?

During dinner following the show, a John Deere dealer from North Carolina discussed the recent *Wall Street Journal* article in which CEO Robert Lane is quoted as saying, "For years we talked about Deere as a family. The fact is we are not a family. What we are is a high-performance team. If someone is not pulling their weight, you're not on the high-performance team anymore." *(Deere Weeding Out Dealers Even as Farms Boom, August 15, 2007)*.

Deere see page 2

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"It's nice to know where we stand," said the dealer. "I'm saving that article."

He also expressed his concern about whether the company will allow him to turn his single-store dealership over to two sons who work in the business. "I just don't know what's going to happen," he added.

Another Deere dealer from Illinois that *AEI* spoke with following the event said he noticed a lack of enthusiasm in his section. "Very few of the dealers in my section of the audience applauded after [Doug] DeVries [senior vice president, ag marketing] spoke," he said.

Referring to what he had seen at the new product event, a Colorado dealer remarked, "There's some stuff there that I can sell." He added that despite the more than 2-dozen items that Deere introduced for the rural lifestyle customer, he and his dealership were still having trouble adapting to these new customers. "It just takes too long to sell those folks," he explained.

Analysts Impressed. From their reports following Deere's new product rollout, it was clear that at least some of the analysts were impressed.

Baird analyst Robert McCarthy wrote: "While largely an event held for the benefit of dealers, we were nonetheless generally impressed with the new products, which were focused on driving customer production levels higher while increasing efficiency.

"Particularly impressive (and timely) was the introduction of a new series of more productive (and powerful) STS combine harvesters and a redesigned corn head that appears to enable significant increases in efficiency and thus yields."

The bottom line for Bank of America analyst Seth Weber was that "Deere is clearly executing well and we view its ongoing product introductions and commitment to growth as underscoring its leadership position in what appears to be a promising global ag cycle — ethanol, emerging market commodity demand, low global stocks to use ratios, etc."

AEI's Perspective. It's clear why Deere remains the largest manufacturer of ag equipment in the world. Their goal is obvious: they want to be everything to everybody when it comes to farm machinery.

The company appears to be attacking every segment of the market. This year they rolled out more than 2-dozen new pieces of equipment aimed squarely at the rural lifestyler and large acreage owner. No-till and conservation till operators weren't ignored either, as Deere brought out a new air hoe and no-till drills, and a single-pass tiller/mulcher. Their partnership with Syngenta Crop Protection, and development of the liquid Central Insecticide System that allows growers to apply Force insecticide in one pass while planting corn may very well set the stage for similar innovations in the future.

Their new cotton harvester with its on-board module building capability was easily the sexiest of all the products. But with the glitz comes a price tag of nearly $600,000. Despite the price tag, one dealer told *AEI*, "I could sell two of them if I could get my hands on them."

"Their emphasis on Frontier is aimed at squeezing out other shortlines. . ."

Frontier a Shortline? While rolling out several new implements and attachments through its Frontier line, Deere referred to the brand as the "largest shortline" company in the world. In response to questions about the company's emphasis on its Frontier brand, John Lagemann, vice president of ag marketing, said it's a matter of saving Deere dealers time.

"It's an advantage for our dealers to sell a package of equipment," he said. "It reduces the number of suppliers our dealers have to deal with."

With the Frontier implements painted John Deere green, the company is calling its shortline strategy "green on green."

It would be easy to argue Deere's use of the term shortline to describe Frontier, but the intention is clear. The added emphasis the company gave to its "shortline" brand is aimed at squeezing out other shortline equipment from dealer lots. AEI

DEERE'S OPTIMISM FOR 2008 IS SHOWING

Analysts Robert McCarthy of Baird and Seth Weber of Bank of America appear to draw similar conclusion following their Q&A session with John Deere's Sr. VP/CFO Michael Mack during the company's new product event in Cincinnati. It's apparent that Deere is locked and loaded for what it views as an extremely promising 2008 for ag equipment sales.

According to McCarthy, Deere management appears to both expect, and be prepared for, a significant increase in fiscal year '08 demand and production levels. "In addition to pre-building components in the fourth quarter for use in fiscal 2008, we understand Deere is certifying additional suppliers, even for parts that Deere currently manufactures internally."

"CFO Mack's focus remains on driving profitable growth — shareholder value added and operating return on operating assets — including targeted investments in emerging markets (e.g., China, India, and the former Soviet Union) and ventures (wind and water), which should have attractive returns over time," Weber said in a note to investors.

"With strong anticipated cash generation, we could see the frequency of Deere's acquisitions accelerate. The recent inventory build-up (raw materials and components) points to the company's optimistic outlook for the North American market."

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South America Leads the Way as Ag Equipment Exports Gain 9%

U.S. exports of agricultural-related machinery increased 9% during the first half of 2007 to $4.5 billion, with South America showing the strongest growth, according to the Assn. of Equipment Manufacturers (AEM).

South America purchased 36% more American-made agricultural machinery than during the same time period last year, for a total of $297 million, while exports to Central America dropped 2% during January-June 2007 to $367 million.

Farm equipment exports to Asia grew 7% for the first half of 2007 compared to January-June 2006, with purchases totaling $375 million.

The value of farm machinery exports to Europe totaled nearly $2 billion, up 25% during the first 6 months of the year compared to the year earlier. Canada took delivery of $1.15 billion in equipment, a 3% decrease.

Exports of farm equipment to Africa totaled $109 million for the first half of 2007, a 17% increase compared to 2006.

Ag machinery exports to Australia/Oceania at mid-year totaled $179 million, a 40% decline from the same period last year.

Top 10 Export Destinations for American-Made Farm Machinery During January-June 2007

Rank	Country	Shipment	Change
1.	Canada	$1.15 billion	-3%
2.	Mexico	$281 million	-6%
3.	Russia	$279 million	+112%
4.	Germany	$265 million	+8%
5.	France	$199 million	+5.5%
6.	UK	$186 million	+8%
7.	Belgium	$183 million	+46%
8.	Australia	$155 million	-43%
9.	Ukraine	$142 million	+113%
10.	Brazil	$113 million	+52%

Source: AEM

Brazil Tractor Sales Soaring, But is AGCO Losing Its Grip?

AGCO-branded tractors have long held a dominating market share on Brazilian farms. But a recent study by Wall Street Access analyst Charlie Rentschler seems to suggest that the Duluth, Ga.-based farm equipment maker may be losing its grip there.

As American farmers have diverted more acres to corn and away from soybeans to feed the growing demand for ethanol, Brazilian producers are rushing to fill the void by growing more soybeans for export. Plus, they're pushing to produce more sugar cane for domestic ethanol production. The result is tractor sales are soaring in Brazil.

According to Brazil's Auto Manufacturers Assn. (ANVAFEA), through August, tractor shipments were 19,947, up 50% over the 13,295 sold in the first 8 months last year. At this rate, full-year sales should reach 30,000, nearly double the 17,543 produced at the bottom of the recession in 2005 and not far from retracing the previous peak of 33,186 in 2002, according to Rentschler.

"There's been some interesting share shift since 2005, with AGCO losing 5 points, CNH Global gaining 5 points and Deere adding 1 point," says Rentschler. "Deere, of course, has opened a new tractor plant, which will give the company added impetus to grow its market share further."

The WSA analyst also notes that Brazilian combine sales are sharply higher so far compared to last year, which was the low point in the cycle. Here, too, AGCO has lost share to its two big rivals.

John Deere, in its third-quarter conference call, also cited the significant improvement in the Brazil ag market, upping its estimates for improving sales to Brazil to 30% from 20% in the second quarter.

BRAZIL TRACTOR SALES — 2002-07

2002	2003	2004	2005	2006	2007 (YTD)
33,186	29,405	28,636	17,542	20,141	19,947

Source: ANVAFEA

BRAZIL MARKET SHARE — TRACTORS

	'05	'07ytd	% Change
AGCO	63%	58%	-5%
CNH Global	17	22	+5%
John Deere	10	11	+1%
Others	10	9	-1%

Source: ANVAFEA

FARM MACHINERY TICKER (AS OF 9/12/2007)

Mfr.	Symbol	9/12/07 Price	8/13/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$43.96	$41.69	$46.47	$22.47	NA	1.40M	4.02 B
Alamo	ALG	$24.17	$24.86	$28.37	$20.95	26.47	28,390	236.6 M
Art's Way	ARTW	$16.21	$14.13	$19.99	$5.30	22.02	30,733	31.85 M
Caterpillar	CAT	$72.77	$77.90	$87.00	$57.98	14.80	6.99 M	46.51 B
CNH	CNH	$52.90	$51.74	$59.39	$21.05	29.59	410,994	12.53 B
Deere	DE	$137.83	$118.65	$140.09	$76.86	18.83	2.72 M	30.58B
Kubota	KUB	$36.76	$41.28	$53.83	$35.32	13.82	59,261	9.49 B

AEI Editors Go 'One on One' with New Holland and Case IH

Editors Note: AEI editors sat face-to-face with CNH executives in late-August to discuss an array of issues for 2008. While Lorenzo Sistino was appointed as CEO of Fiat Automobiles, S.p.A. on September 18 (replaced by the expanded role of CNH CEO Harold Boyanovsky), his comments remain relevant to the direction of the organization.

Lorenzo Sistino, President & CEO, New Holland Agricultural Equipment

AEI: *What is New Holland looking to achieve in 2008 in terms of growing its business and gaining market share?*

Sistino: We need to capture new customers. Ten years ago, New Holland had a better market share than it has today. We have customers who are passionate about buying "blue," but somehow we lost some customers. Today, we're finding ways to get them back.

The cash crop segment is the area where we have a very good opportunity to improve market share because we have good products and service is important for this customer.

To keep current customers and get new ones, you need: good products, good dealers and good service. We believe we have an excellent, complete line of products. We also know we have great dealers.

We need to improve our service. This is where we'll push hardest in 2008 and in October we'll be rolling out our 24/7 "Top Service" program in the U.S.

I'm European and I've found that the North American customer is more serious. If you say something, they trust you. But if you don't deliver, you immediately lose your credibility and it's difficult to get it back.

To gain market share, we must improve our service to this market. So far this year in North America our volume has grown by 2%.

AEI: *How important is the rural lifestyle/hobby farmer market to New Holland? Are New Holland and its dealers well situated to service these customers?*

Sistino: This is a strategic market segment for New Holland. It's important for our dealers to have this line of products.

We may need to add dealers in different areas of the country because this market is more concentrated around the urban centers.

Our approach in terms of equipment is to tell this customer that we produce your compact tractor with the same attention and engineering that we use on our largest T9000 tractors or our big combines. This is a value we can leverage.

If our dealers want to develop this business, they don't need another brand. We provide everything this customer needs, including development of more implements for this market.

AEI: *What products are you introducing for 2008 that you're most excited about?*

Sistino: The T7000 tractor is a great product in terms of comfort. It's the best in the industry when it comes to noise. It's like a luxury sedan car in the medium- to medium-high horsepower range. Our TT tractors also offer a completely different approach to value-line tractor.

> ***"Bigger dealers are not always the better performers. In my experience, the forced merger will not work. . ."***

We're also launching the FR forage harvester, the most powerful unit in the industry at 823 horsepower. We had a gap in our forage harvester line and this machine closes that gap.

AEI: *You've also made news at the Farm Progress Show about New Holland engines being able to utilize biodiesel 100? Why is this such a push for you?*

Sistino: More than 55% of our mechanical engines in tractors, combines and forage harvesters are equipped to use biodiesel 100 and all of our engines can run on biodiesel 20. We are the first brand to do this.

Maybe today there aren't a lot of customers who need biodiesel 100 or even biodiesel 20, but the demand is growing fast. If a customer buys a New Holland product, it's ready for the future. After 10 years, this tractor will have a higher residual value. If you buy a New Holland product now, whatever happens in the future, you're ready for it.

AEI: *In mid-August, the Wall Street Journal published an article about John Deere's dealer consolidation efforts. In it, Deere's CEO Robert Lane, is quoted as saying, "The fact is, we are not a family. What we are is a high-performance team ... If someone is not pulling their weight, you're not on the high-performance team anymore." What's your reaction to this?*

Sistino: The relationship with our dealers is fundamental. It's paramount. The relationship between the dealer and the customer, which in many cases is maybe three or more generations, is of great value to New Holland. We cannot lose it and we must protect it.

I agree with Lane's comments about the changes that are overtaking the industry, but I think the sons of our current dealers will take a different approach than that of their fathers.

Dealers need to change their approach because the customer is more demanding. They need to face the new industry, the new customer and the new technology. But the relationship between dealer and customer is fundamental. Why would we want to lose this value?

We can look at the auto industry and see that bigger dealers are not always the better performers. So to force dealers to join together doesn't work. In my experience, the forced merger will not work.

Jim Walker, Vice President, Case IH Agricultural Business, North America

AEI: *How do business levels look for the remainder of 2007 and into 2008?*

Walker: The significant increase in corn acreage has been pretty dramatic. The positive side is that the price of corn rose and other commodities enjoyed the residual effect. In cotton, we're seeing a 20-25% reduction in acres planted. Most of it was replaced by corn. The benefit is that we were able to move a lot of used combines here in the Midwest down to the Cotton Belt, so the used combine inventory has come back in line. An oversupply of used always limits the dealer's ability to sell new.

I see '08 corn acreage flattening out as we still need crop rotations. You can't stretch corn after corn too often or we risk a lot of long-term problems. We'll probably see a slight increase in corn production next year, but I think farmers have taken about as much risk in changing crop rotations as they're willing to at this point.

> ***"We're not interested in being in the lawn and garden business. We're a farm equipment maker. . .***

Business levels in '07 have been very good. We already know that sales of high horsepower equipment will be up over 2006.

As manufacturers, we're all being very conservative as we don't want to overproduce. We're going to ensure that we don't over saturate our dealers with used equipment because that'll bring down a supply chain as fast as anything.

Our real drive is to solidify the financial situation of our dealer network and not put them at risk with used equipment. We want them to take advantage of the equipment we're going to produce in a more predictable manner.

Farmers are now into this for the twelfth or fifteenth month with good prices. They should be more apt to order machinery ahead of time. This will make the whole system more efficient and not as risky as it's been in the past. I'm hoping that the whole industry has learned some valuable lessons and farmers can adapt and be a little more predictable in their purchasing. If everything works as it should from the risk standpoint, '08 will be a phenomenal year for both the industry and the farmer.

AEI: ***How important is the rural lifestyle/hobby farmer market to Case IH?***

Walker: There's a fine line between where lower horsepower tractors become a consumer product market and where they are an extension of the farm equipment market. Our philosophy at Case IH is that we want to offer our dealers every product they need to be able to sell into the farm marketplace.

We're not interested in being in the lawn and garden business because that business model is not something we're good at. It's not our heritage as IH. We're a farm equipment maker. We bring products in that are practical for the farming industry, which may exclude some high-volume market segments. It's just not something that we're geared up to support.

We go down to about 30 horsepower. But that line that separates market segments isn't always dictated by horsepower as much as it is by the tractor series and frame system. If a hobby farmer wants a 30-hp tractor, we're going to sell it to him. If he peaks out at 29 hp, then we're not in his business.

AEI: ***Are your dealers asking for smaller tractors for the rural lifestyle market?***

Walker: Before I came on board a year ago, our dealers had been told we were getting out of some horsepower ranges as well as hay equipment. Being in this business as long as I have and knowing the IH heritage, that decision changed very quickly. We told our dealers that we are in the farm equipment business and you will have every product you need. Based on the products introduced in the last year, I think they believe us. We've included them in product planning and we've brought people on board who have marketing expertise to promote and market the new equipment.

AEI: ***Would you object if these dealers picked up another tractor brand with the lower horsepower?***

Walker: If they need to do that, then we have a dealership whose priority isn't on the farm equipment business. Every dealer is an independent businessman and has the right to a return on investment. When dealers tell me they might have to go out and get a competitive line, I say that we're probably not on the same page in terms of what we're trying to achieve.

We're not running those dealers off, but they know where we stand and they need to make a business decision. Most of our dealers today are telling us that what they had done in the past was because they didn't think we were in the business. Now they see how extensive our new product range is and many will likely get rid of other brands they may have picked up.

AEI: ***Recently, the Wall Street Journal published an article about John Deere's dealer consolidation efforts. What's your reaction to this?***

Walker: My feeling is you need to have a good product and a good dealer network, and we can hold our own with anyone. We have the name brand, but the difference is our people. We're trying to assure our customers that we are an approachable company and they have access to us when they need us. That includes both the dealer and the farm customer. It's a mistake to withdraw from having interaction with the farmer.

My philosophy in answering your question to the *Wall Street Journal* article is we don't take into account what our competitors are doing. We just remember how the farm machinery business used to be done. That was through relationship building with our customer — both dealers and farmers — and that's what our mission is going forward.

> ***"We've rebuilt a lot of bridges with our dealers during this past year. . ."***

You don't go around your dealers. One thing that farmers expect is not only a relationship with their dealer, but an understanding of who the manufacturer is. This past year we've put more people back into the field in different roles — from product specialist to service techs to sales — to make sure that we have people in the field to help our dealers in their day-to-day efforts with their customers.

We've rebuilt a lot of bridges with our dealers during this past year. We are a partnership going forward. We have good dealer input into our business and we respect them and their opinions. AEI

Land Pride, Kubota Seek 'One-Stop' Synergies with Marketing Agreement

When Land Pride and Kubota inked a strategic marketing alliance earlier this month, the two companies said they were looking to achieve valuable market synergies. Both companies feel they need to further penetrate not only the rapidly growing rural lifestyle market, but the utility-class construction segment as well.

Land Pride, a division of Great Plains Manufacturing of Salinas, Kan., manufactures landscape and turf-related tractor-mounted implements. Kubota Tractor Corp., Torrance, Calif., is the U.S. marketer of Kubota-branded tractors up to 103 PTO horsepower.

The two firms say the marketing partnership will allow more than 1,000 U.S. Kubota dealers to offer "Kubota performance-matched" implements providing customers with a "one-stop" location for both their compact and utility tractors and implements.

"The strategy is to further penetrate the rural lifestyle market," says Linda Salem, president of Land Pride. "Kubota offers primarily tractors, front-end loaders and backhoes along with a few other implements. Because of their limited range of implements, they were looking to round out their offerings in more creative ways than through purchasing another company or developing an OEM relationship. A lot of our dealers are already Kubota dealers," she says.

Improved Distribution. Despite having 1,500 Land Pride dealers, Salem says that there were still parts of the country where the company wasn't represented well. The agreement with Kubota gives the implement manufacturer the opportunity to move into market territories where they have little or poor exposure currently.

Roy Applequist, president and owner of Great Plains, adds that many tractor buyers don't necessarily have a brand preference when it comes to implements. "Often, they buy a tractor and whatever the dealer packages together with the tractor. This gives both Land Pride and Kubota the opportunity to match a high-quality tractor with high-quality implements."

Applequist also points out that while Kubota is often associated with the rural lifestyle-type customer, the tractor maker also has a strong position in the construction market where higher-quality, dependable tools are required. So, the alliance with Land Pride will also benefit Kubota in this market segment, he says.

Marketing Opportunities. According to John Quinley, marketing manager for Land Pride, an alliance such as this with a premier tractor company with over 1,000 U.S. dealers is a tremendous opportunity for market growth.

"We have used Kubota tractors in many of our working photos, but you likely will see more. In the past, we have supplied Kubota with implements for their photo shoots. In the future, Kubota will use Land Pride products in their literature and at exhibitions. This augments our brand awareness campaign as we gain increasing recognition through Kubota's marketing strength."

The Frontier Factor. Both Applequist and Salem say that John Deere's acquisition and strategy of promoting its Frontier brand of implements is forcing shortline implement manufacturers to adopt a more aggressive approach with their distribution channels.

"Certainly, the green guys are doing their best to squeeze out a lot of shortliners and in order for us to succeed, we need to make sure that we have a strong growing dealer network," says Salem. "The alliance will certainly give us a good position with Kubota dealers and we believe our business with them will grow in a very customer friendly way." AEI

BUHLER GETS 'IMPROVED' OFFER FROM RUSSIAN FIRM

Buhler Industries Inc., Winnipeg, says it has negotiated an "improved" offer from Russia's Combine Factory Rostelmash Ltd. and the buyout will no longer be stretched out over 5 years. The deal now amounts to $145 million to acquire 80% of the farm equipment firm.

Buhler said the offer will amount to $7.25 a share in cash, valuing the total company at $181 million.

In July, Rostelmash had offered to acquire 80% of Buhler over 5 years: 51% at $7.50 per share by September 30, followed by 4 annual purchases of 7.25% of the outstanding stock between 2009 and 2012 at $7.60 each.

The closing date has been set for October 31. Buhler's board is scheduled to meet on September 18.

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Art's-Way Completes Acquisition of Miller Product Line

On September 6, Art's-Way Manufacturing Co., Armstrong, Iowa, announced that it had completed its acquisition of the hay and forage product lines of Miller Pro of Miller St. Nazianz, Inc. of St. Nazianz, Wis. (*AEI*, July 2007)

The Miller Pro product lines have historically had annual sales of approximately $8 million including a substantial portion of spare parts. Manufacturing of the product lines is being moved to Armstrong, Iowa, where production will resume for the next growing season.

Big Equipment Sales Remain Healthy in August

North American sales of row-crop and 4WD tractors as well as combines continued a strong upward trend in August, according to the latest numbers from AEM.

Retail sales of row-crop (>100 hp) and 4WD tractors rose 32% and 7%, respectively on a year-to-year basis in August, while sales of combines increased 32% as the seasonally important fall selling season continues, according to Baird analyst Robert McCarthy. "With year-to-date large agricultural equipment sales now up solidly (8-13%) year-to-year and inventories continuing to post significant year-to-year declines, the outlook for machinery production schedules remains positive," says the machinery analyst.

- Compared with the same month in 2007, North American retail sales of row-crop tractors (2WD >100 hp) jumped 32% in August after improving 20% in July. Retail sales have increased 33% year-to-year during the last 3-month period. August is the least seasonally important month for row-crop tractor sales, contributing an average 5% of annual sales during the previous 5 years.
- Sales of 4WD tractors in the U.S. and Canada increased 7% year-to-year in August after a 4% increase in July. Sales are up 2% in the last 3-month period. August is not a seasonally important month for 4WD tractor sales, contributing only 4% of annual sales.
- Combine sales rose 32% year-to-year in August after improving 3% year-to-year in July. August is a seasonally important month for combine sales, contributing an average 11% of annual sales.
- Dealer inventories of row-crop tractors, 4WD tractors and combines were all down on a year-to-year basis in July, falling 13%, 23% and 13%, respectively.

On a days-sales basis, inventories of row-crop tractors (108 days vs. 125), 4WD tractors (89 days vs. 114), and combines (83 days vs. 105) also declined significantly year-to-year. AEI

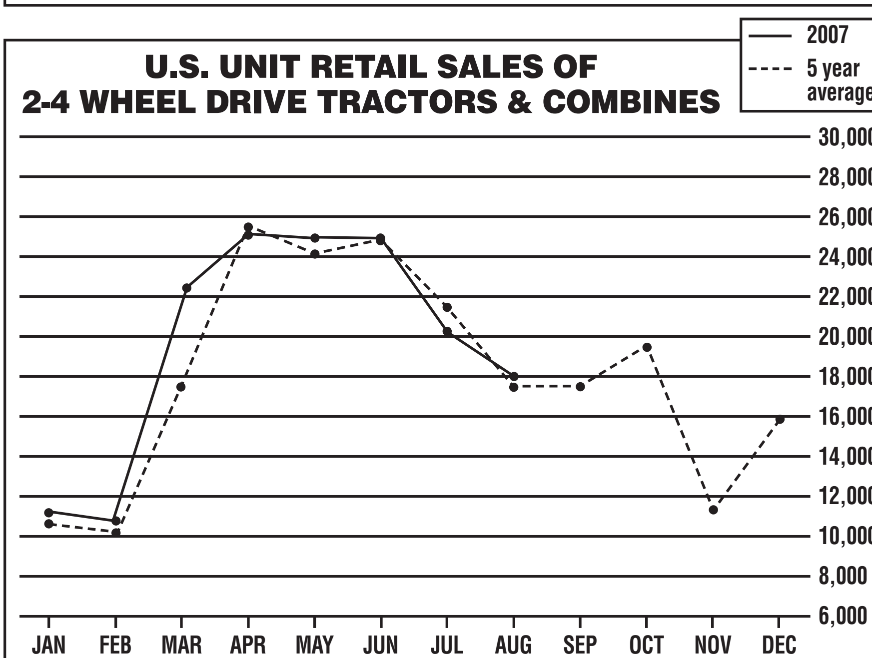
AUGUST U.S. UNIT RETAIL SALES

Equipment	August 2007	August 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	July 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,237	9,833	-6.1	85,646	89,312	-4.1	54,655
40-100 HP	6,744	5,937	+13.6	54,784	52,215	+4.9	33,147
100 HP Plus	1,084	829	+30.8	12,970	11,231	+15.5	5,412
Total-2WD	17,065	16,599	+2.8	153,400	152,758	+0.4	93,224
Total-4WD	144	128	+12.5	2,141	1,972	+8.6	766
Total Tractors	17,209	16,727	+2.9	155,541	154,730	+0.5	93,990
SP Combines	772	527	+46.5	4,180	3,660	+14.2	1,460

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	August 2007	August 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	July 2007 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	818	716	+14.2	7,962	6,698	+18.9	4,990
40-100 HP	427	451	-5.3	4,350	4,396	–1.0	3,104
100 HP Plus	209	149	+40.3	2,388	2,382	+0.3	1,414
Total-2WD	1,454	1,316	+10.5	14,700	13,476	+9.1	9,508
Total-4WD	18	23	–21.7	468	430	+8.8	132
Total Tractors	1,472	1,339	+9.9	15,168	13,906	+9.1	9,640
SP Combines	242	241	+0.4	1,009	1,095	–7.9	611

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



—*Assn. of Equipment Manufacturers*

Despite Turmoil in Ethanol Market, Near-Term Equipment Sales Remain Solid

Is the "ethanol bubble" about to burst? Or is the ethanol industry just settling down to plot its next big move? Will the galloping farm equipment sales forecast over the next few years due to "mad corn disease" eventually slow to a trot?

With more than 120 ethanol plants in production and several more under construction, ethanol futures prices have slowed dramatically in the last few months. Several planned expansions and new ethanol facilities have been put on hold. Corn prices have settled in from a high of $4.50 a bushel early this year to about $3.00 a bushel.

With all of the turmoil surrounding the near-term future of ethanol and its main foodstock, corn, industry observers, analysts and speculators are lining up on both sides of the debate.

On recent cancellations and postponements of new facilities, Brian Milne, editor and product manager of *DTN Refined Fuels*, says this is more proof that there may be a shakeout underway in the ethanol industry.

"New plants coming online will slow dramatically because of tightening and potentially inverted margins," he says. "As far as the plant [in Akron, Iowa, which was cancelled] being in the heart of corn country, I think it demonstrates a saturated local market, not so much in sourcing feedstock, but its off-take."

Acres Fall, Prices Rise. The current USDA forecast of $2.80-$3.40 a bushel for corn and 2007-08 yield estimates of 152.8 bushels per acre presents both an upside and downside, according to Bank of America (BofA) analyst Seth Weber in his most recent investment notes.

The downside is reflected in the projected high yields and record high acreage of corn, which works to keep prices relatively low despite the strong demand. "However, we believe that the upside to the USDA's yield outlook is well known by the market and is reflected in current corn prices." The USDA will provide its next outlook 2007-08 on September 17.

Looking to 2008-09, Weber expects to see higher corn prices. "Our ethanol supply/demand model forecasts run-rate annual ethanol capacity of about 13 billion gallons by the end of 2009 from 6.9 billion gallons currently, implying a large increase in corn demand."

Given current commodity prices, lower corn prices and higher soybean and wheat prices, he says, acreage will likely be bid away from corn, limiting supplies. "Based on higher demand from ethanol and a rotation of crop acreage, we are forecasting corn prices of $3.48 per bushel in 2008-09 up from $3.00 bushel in 2007-08.

"Near-term, lower corn prices should benefit ethanol production margins," says Weber.

This same scenario, according to the analyst, creates a very positive outlook for ag equipment sales. "We believe sustained elevated crop prices should drive higher cash receipts, and ultimately, equipment sales."

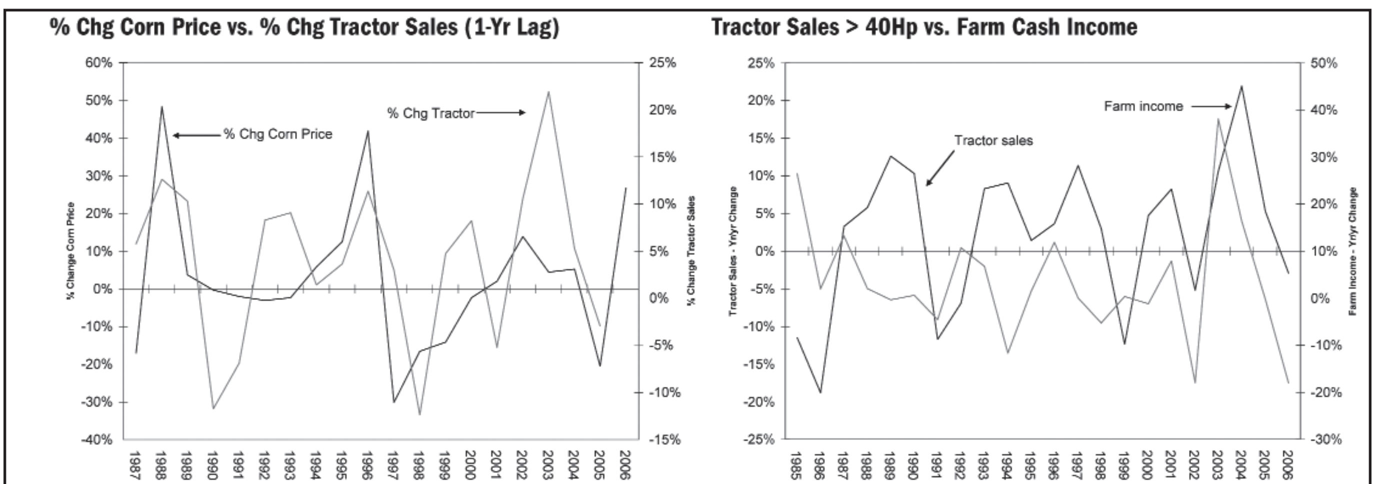
Strong Near-Term Outlook. Weber says the fundamentals are in place for a sustained global agriculture cycle, which will ultimately drive sales of tractors, combines and related machinery, as higher corn prices should translate into higher farm cash receipts. Machinery demand typically reacts to cash receipts and farm income, which reflect commodity prices, acreage planted, crop yields and government payments. High corn prices have stimulated more corn planting and, Weber points out, corn requires more intensive/advanced machinery for harvest vs. other crops. **AEI**

U.S. FARM CASH RECEIPTS (BILLIONS OF DOLLARS)

Year	2005	2006	2007F
Crops	$116	$120	$136
Livestock	125	119	140
Govt. Subsidies	24	16	14
Total	265	255	290

Source: USDA

BofA analyst Seth Weber believes sustained strength in crop prices should translate to higher cash receipts and, ultimately, equipment sales.



Source: USDA, AEM, Banc of America Securities LLC estimates, Haven, Wall Street Journal.

Although the market appears to be discounting a significant ag machinery recovery, recent North American retail tractor sales have remained mixed, with strength in large-horsepower tractors offsetting weakness in smaller tractors.

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