

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Deere's 'Big' Moves
- Russian Questions
- Manitou Buys Gehl

Case IH Exec Sees Equipment Shortages Easing As Cost Pressures Grow

While soaring steel and other input costs continue to pressure equipment manufacturers, the burden of rising prices for fuel, fertilizer and seed will also cause farmers to back off on their purchases of new machinery in 2009, maintains Jim Walker, vice president of Case IH's ag business in North America.

In an interview with *Ag Equipment Intelligence* during the Farm Progress Show late last month in Boone, Iowa, Walker said the disparity between farm inputs and commodity prices producers are receiving has narrowed dramatically in the past 9 months and will, in all likelihood, slow domestic spending on new machinery in 2009.

"Our customers are telling us that when they booked their inputs a year ago there was a large spread between

input costs and revenues based on commodity prices. That gap is now much narrower. We expect growers will start backing off on new equipment purchases and demand will slow down because of the much smaller gap between revenue and input costs," Walker says, adding that he expects cost pressures to continue. "It's really going to start showing up in the fourth quarter when we see another round of increases."

Added Surcharge. To counter escalating costs for steel, energy, commodities and transportation, CNH Global, parent company of Case IH and New Holland brands, announced on June 23 that it would add a 5% surcharge. Walker says, "We implemented the surcharge rather than increasing the price book because we believe

the current cycle is a phenomenon and we want the ability to take it off, if things should change."

Walker says that the company will not realize the total benefit of the surcharge prior to the end of the year due to the volume of pre-sold machinery. "A lot of customers placed orders for the last quarter, and if it was early, the surcharge wasn't applied."

With or without the surcharge, Walker says customers can anticipate significant price increases in 2009. "Customers who bought a combine in January 2008 could expect that same combine to cost 9-10% more in January '09," he says. "The majority of that has to do with higher input costs to us."

On July 29, AGCO Corp., the number three ag equipment maker behind

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Farmtrac Heading to a Resolution?

Speculation continues on the Farmtrac situation. Several tractor industry executives said they've heard a decision on the future of the tractors will come one way or another by September 30, causing anxiety for the entire compact tractor industry.

While bids have been made for Farmtrac, one option on the table continues to be the liquidation of some 4,500 tractors at pennies on the dollar, a scenario that would add difficulties to an already soft market for compact tractors, and possibly the worst possible scenario for nearly everyone involved.

The Farmtrac Saga. Farmtrac announced on January 18 that it was

"temporarily" idling tractor production at its Tarboro, N.C., facility and was forced into receivership. Since then, little has been heard from the company's ownership group, Escorts Ltd. of India, leaving thousands of customers and nearly 300 dealers holding the bag.

Customers are having difficulty finding repair and maintenance parts, and dealers don't know what to do with existing inventory or who will back up warranty claims.

As reported in *AEI* earlier this year, creditors, most notably Textron Financial, were left with an estimated \$55 million of debt owed by Farmtrac.

A court-appointed receiver held a salvage auction of parts, operable tractors and scrap metal at the Tarboro facility in late April, further feeding speculation that Farmtrac was done for good. At that time, Jae-Yong Sim, a senior manager with LS Cable, the Korean manufacturer of Farmtrac equipment, said that his company was "seriously considering" how the company could remedy the situation. It appears that the company may be taking some action.

A Potential Scenario. *AEI* spoke with several exhibitors at the Farm Progress Show in Boone, Iowa, in late August, and they revealed that LS,

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Deere and CNH, also said that it was accelerating price increases in the second half of 2008 to counter higher input costs and to recoup profits eroded by inflation. Martin Richenhagen, chairman & CEO of AGCO, said at the time that the slowdown in the global auto industry may ease upward pressure on steel prices. "Everything that is steel and oil-related hasn't plateaued yet," he said. "Maybe the slowdown in the auto sector will have an impact on steel prices, though we don't see that yet."

Adding Capacity? Recent interviews by *AEI* with more than a dozen manufacturers indicate that shortages of new equipment are among their chief concerns going into 2009. Despite the ongoing tightness in machinery supply, Walker says that Case IH continues to walk a fine line between adding new capacity and squeezing more production from its existing facilities.

"To say we haven't increased capacity isn't exactly right," Walker says. "If you were to take 2007 over '06, where the market went up anywhere between 20% and 25%, we were able to meet demand without any lost opportunities. Now in '08 over 2007, we're looking at another 20-25% increase and we're stretched at this point. But I do see the demand leveling off now, so I think we're going to be fine from the standpoint of meeting demand."

The booming demand for farm machinery has delayed the closing of the Case IH plant in Goodfield, Ill., at least temporarily. The company said in October 2006 it would close the facility, which produces tillage and fertilizing equipment, at the end of 2007.

"We made the decision on Goodfield a few years ago when we were studying our factory utilization," Walker says. "Our Saskatoon facility in western Canada has strong capabilities in manufacturing expertise and manpower and was under utilized. We

decided at the time to take some of our products, like combine headers, planters, tillage and seeding equipment and produce them there.

"Then the market for those products took off. So we had to make changes to meet additional demand. I can't tell you what factories may be looked at again or re-utilized or where production shifts may be made down the road. Goodfield offers strong expertise in the

"When we leave this time of opportunity, we need to have changed the landscape of competitiveness in our favor. . ."

production of tillage equipment. There is a schedule for the facility, but it hasn't been published yet," Walker says.

Growing Exports? As demand for farm machinery in North America booms, manufacturers are also looking at unprecedented orders for ag equipment from overseas markets. According to the Assn. of Equipment Makers, exports of U.S. agricultural-related equipment topped \$5.8 billion dollars for the first half of 2008 compared to mid-year 2007 numbers — an increase of 30.5%.

Many dealers surveyed by *AEI* this past June believe that equipment makers, eager to establish and grow overseas markets, gave exports priority in the past year, resulting in the severe shortages experienced in North America.

But Walker maintains that while the volume of exports of Case IH machinery to overseas markets increased in the past 12-18 months, the percentage of the firm's total sales didn't end up in foreign lands.

"The percentage of our production hasn't changed as much as the number of units we exported has changed," he says, pointing to the

increased capacity Case IH has utilized in the last 2 years.

"The same percentage of our production is going overseas now as it was 2 or 3 years ago, but the volume has increased. The percentage hasn't wavered much. We still need that volume percentage of our total manufacturing capacity here to protect and grow our domestic market share."

A Softer 2009. When CNH Global reported record-setting sales and revenues for the second quarter of 2008 in late July, some analysts called its outlook for the remainder of the year and into '09 "conservative."

Walker says this is the message he's been delivering to Case IH dealers the past few months.

"I've been telling them that now is the time to get their houses in order. Even if there weren't limitations, there is going to be a peak in what we're going to be able to sell in high-horsepower tractors or combines.

"Our dealers need to start preparing for an eventual downturn and begin expanding their business into other product ranges so they are truly full-line dealers and taking full advantage of all the products we manufacture, not just lucrative high-horsepower products."

Relating the current sales cycle to that of boom-times of the 1970s, Walker believes a "shift in competitiveness" in the marketplace is in the offing if dealers are prepared for it.

"This is the time when dealers have the opportunity to re-position and strengthen themselves financially and in terms of their customer base," Walkers says.

"When we leave this time of opportunity, we need to have changed the landscape of competitiveness in our favor. This doesn't happen very often. We've told our dealer that 2 or 3 years from now it's going to be status quo for the next 10 years. So, if you're going to make competitive inroads, now's the time to do it." **AEI**

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which also supplies the bulk of Montana and McCormick's compact tractor lines, might step in to take control of the situation, a role that could include the direct sales of tractors in North America. The firm doesn't market tractors currently in the U.S.

Two tractor executives told *AEI* that LS taking control of the situation appears to be the best possible outcome at this point.

Because of LS' supply agreements, *AEI* was told that LS would compete on a level playing field and not undermine the pricing strategy of its cur-

rent partners. "I think they'd sell at consistent levels, and still aim to grow their business in America mainly through Montana and McCormick," said one executive.

"This would be the best outcome, and could clean up the mess that was left in this industry." **AEI**

November Elections Could Redefine Future of Biofuels

More than any of the other Wall Street analysts who cover the ag equipment sector, Ann Duignan of JP Morgan has kept her ear closest to the ground when it comes to trends in ethanol production. In a September 10 note to investors, she warns that the outcome of the elections could dramatically reshape the future for biofuels.

For example, she points out that earlier this month, the Republican National Committee called upon the U.S. government to "end mandates for ethanol and let the free market work," which stands in stark contrast to its clear support for ethanol just 4 years ago. Other observations from Duignan;

✓ Obama supports biofuels more than McCain. Obama targets 60 billion gallons per year of advanced biofuels, including cellulosic ethanol, by 2030. McCain, on the other hand, is less specific. While he supports the increased use of biofuels in general, he opposes ethanol subsidies and tariffs.

✓ Ethanol demand continues to exceed production. Year-to-date

through June, production has been 4.2 billion gallons — up 42% year-over-year — vs. demand at 4.4 billion gallons — up 37% year-over-year. Demand continues to exceed production, and will likely remain the case as the ethanol/wholesale gas spread is about \$0.45 based on a rolling 30 day average. U.S. consumption is mandated to be 9 billion gallons in 2008 and exports will have to make up any domestic shortfall.

✓ "Our analysis suggests that current producer variable margins have improved to about 12% vs. -2.0% in June '08 and ~16% in January '08. Corn and natural gas costs have recently pulled back, while ethanol prices have not pulled back as dramatically (ethanol -16% since July 2008 vs. natural gas -39% and corn -24%). Ethanol prices would have to decline to \$2.20/gallon for breakeven vs. current price of ~\$2.55/gal, and corn prices would have to increase to \$6.08 for breakeven," Duignan says.

✓ Brazil should have record ethanol

exports to the U.S. In 2008, UNICA (Union Industry of Cana-of-Sugar) expects Brazil to produce about 6.8 billion gallons of ethanol and will likely export 1.3 billion gallons. Year-to-date through August, UNICA estimates Brazil exported 520 million gallons to the U.S. It also expects 2008 exports to the U.S. to be about 700 million gallons vs. 2006 record exports of 590 million gallons. Landed costs to the US are ~\$2.00/gallon vs. average U.S. ethanol prices of \$2.55/gallon.

✓ "As corn-based ethanol capacity continues to grow, advanced biofuels continue to improve," say Duignan, adding that ADM, Deere and Monsanto recently announced plans to collaborate on developing plans to convert corn stover into ethanol.

"Despite improved margins, the potential negative impact on biofuels mandate under a Republican leadership remains an overhang," writes Duignan. "We believe the election should have minimal impact given the likely Democratic Congress." **AEI**

FARM MACHINERY TICKER (AS OF 9/11/2008)

Mfr.	Symbol	9/11/08 Price	8/12/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$49.57	\$56.94	\$71.95	\$43.54	13.82	1.97 M	4.55 B
Alamo	ALG	\$18.60	\$20.00	\$26.46	\$16.77	11.64	43,807	183.14 M
Art's Way	ARTW	\$10.50	\$16.50	\$19.88	\$7.75	15.72	40,383	41.71 M
Caterpillar	CAT	\$64.81	\$71.81	\$85.96	\$59.60	10.65	7.60 M	39.45 B
CNH	CNH	\$29.06	\$35.34	\$70.00	\$27.24	9.92	425,242	6.90 B
Deere*	DE	\$61.58	\$69.35	\$94.89	\$58.00	12.77	5.84 M	26.29 B
Kubota	KUB	\$30.84	\$34.53	\$43.41	\$28.34	13.24	46,490	7.88 B
Titan Mach.**	TTTN	\$24.09	\$21.55	\$34.49	\$11.50	29.93	757,702	424.75 M

*On November 14, 2007 Deere & Co. shareholders approved a two-for-one stock split in the form of a 100% dividend.

**Titan Machinery undertook its IPO with approximately 6 million shares on December 6, 2007 at \$8.50/share.

Where Does AGCO's Hook-Up with Topcon Leave Hemisphere GPS?

The big news coming out of the Topcon exhibit at the Farm Progress Show was that the joint-venture company TSD — Topcon Positioning Systems (TPS) and Sauer-Danfoss — will be supplying the next generation of satellite-guided steering assist systems for AGCO-branded equipment, including Challenger, Fendt, Massey Ferguson and Valtra. The new auto-guide system has been dubbed "AutoGuide2."

Of course, this begs the question: Where does AGCO's partnership with TSD leave Hemisphere GPS, which apparently lost out in the contest to supply the new guidance systems?

The Next Level. Mike Gomes, global market manager-agriculture for TSD, and Graham Vincent, market manager for Sauer Danforth, told *AEI* that the agreement to supply AGCO globally is a major breakthrough for the joint-venture company.

Topcon will supply the machine positioning controls and Sauer-Danfoss will provide the hydraulic and electronic component technologies for the new AutoGuide2 systems, which they say is the next generation

of integrated auto-steering for farm machinery.

According to AGCO, the new system will be integrated into the overall architecture of AGCO machinery. It will utilize highly advanced inertial sensor and multi-constellation satellite positioning technology to achieve what the companies expect to be an industry leading auto-steering system.

TSD did not indicate what the agreement may contribute to increasing TSD sales revenues.

Impact on Hemisphere. "No, the sky isn't falling on Hemisphere as the market chews on AGCO's announcement that it will source its 'next generation' GPS products from TSD Integrated Controls, rather than purchasing the Beeline product from Hemisphere," Charlie Rentschler, machinery analyst for Wall Street Access, wrote in an email to *AEI* on August 25, the day of the announcement.

According to Rentschler, Topcon won't be ready to supply GPS systems for another 12 months, based on comments from AGCO spokesperson.

"Far more importantly, Beeline

represents a small portion of Hemisphere's sales — we'd guess 5-7% — and likely runs at a slight loss. We believe the reason Hemisphere bought Beeline last winter was not to pick up another OEM customer, but to obtain their technology," he says.

In his analysis, Rentschler adds that Hemisphere is using Beeline engineers to complement an already strong technical team in developing new products, "not only to accelerate the growth of automatic steering but also to obsolete existing Hemisphere products."

For the next 2-3 years, the analyst says the focus of the company's efforts will be aimed at satisfying the aftermarket for automatic-steering, initially in North America — which the company says is only 5% penetrated — and later in South America, Australia and East Asia.

"We think, right now, the company's singular advantage in North America is its distribution system involving 350 'Outback' commission agents," Rentschler says.

More analysis of Hemisphere GPS appears in this issue of *AEI*. **AEI**

France's Manitou to Acquire Gehl for \$450 Million

West Bend, Wis.-based Gehl Co. announced on September 8 that it agreed to be purchased for \$30 a share, or \$450 million, by its largest shareholder, Manitou BF S.A., headquartered in France. The offer reflected a 120% premium over Gehl's closing price of \$13.66 per share on September 5.

Gehl, which had previously manufactured farm implements and compact construction equipment, announced in April 2006 that it was getting out of the ag equipment business after 147 years to focus on its core construction markets.

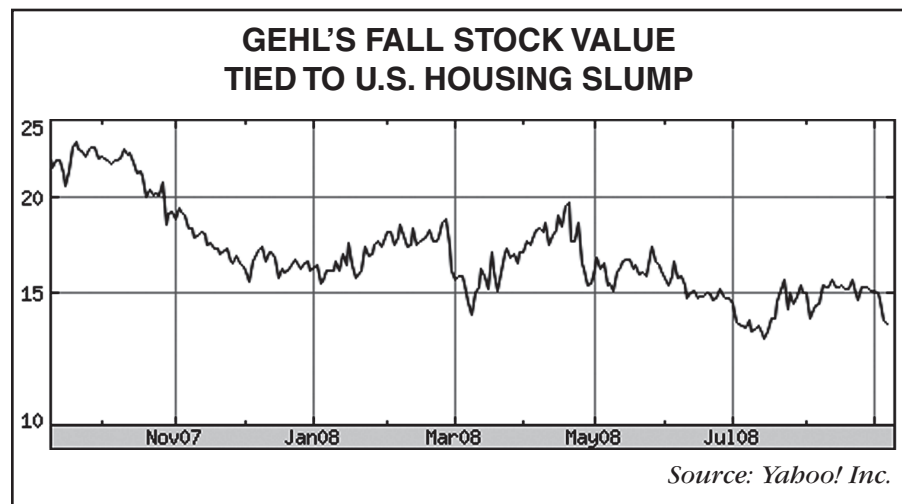
Manitou manufactures and distributes material handling equipment for the construction, agriculture and industrial sectors, and specializes in rough-terrain equipment, including all-wheel-steer loaders and telescopic handlers.

Manitou said it wanted to pur-

chase the remaining stock in Gehl in order to strengthen its involvement in the construction and agricultural markets in the U.S. The French firm generated 82% of its 2007 rough-terrain equipment sales volume in

Europe, 2% in the U.S., and 16% in other markets.

Gehl's partnership with Manitou dates back to 2004 when the two companies entered into two strategic agreements, including a cross-selling



In the past year, value of Gehl shares ranged between \$23.92 and \$11.17 per share. It rose to \$29.52 on September 8, the day its acquisition by Manitou was announced.

agreement for the distribution of telehandlers in the U.S. and a licensing and manufacturing agreement. This allowed Gehl to produce Manitou-designed telehandlers in the U.S., according to Robert McCarthy, an analyst for Robert W. Baird & Co., which acted as a financial advisor to Gehl in the definitive agreement to be acquired by Manitou.

Manitou acquired a 14.9% equity stake in Gehl shares in conjunction with the agreements. The stake now represents 14.4% of Gehl's fully diluted shares outstanding.

Housing Market Hurting. The

ongoing slump in the U.S. housing market has taken a toll on Gehl's sales and revenues through the first half of 2008. Company earnings in the second quarter of this year tumbled by more than 40% on a 17.8% sales decrease.

In July, the company cut its earnings outlook for 2008 full-year based on its recent financial results and expectations that the "North American housing market will continue to experience weakness" for the rest of the year.

The company now sees earnings per diluted share from continuing operations of \$0.85-\$1.05 from sales

in the range of \$390-\$410 million. Previously, Gehl had forecast earnings per share of \$0.95-\$1.20 on sales of \$405.0-\$425.0 million.

"Our first impression of the deal is that it's a strong positive for Gehl shareholders at a time when the U.S. housing construction market has shown little sign of bottoming.

"We see little chance of Gehl stock reaching the \$30 price level on its own within the next 12 to 18 months," said analyst Charles Brady with BMO Capital Markets in a published report in the *Milwaukee Journal-Sentinel*. **AEI**

Investment in Russia Remains Strong, But Tensions Could Leave Equipment Makers 'Sitting on Iron'

The continuing investment in machinery among farming enterprises in Russia is encouraging foreign and domestic manufacturers alike to step up production. At the same time, growing tensions resulting from its aggression in the former Soviet state of Georgia may have some farm equipment companies reconsidering their long-term role there.

According to Soyuzagromash, the trade body that represents the interests of Russian farm equipment manufacturers, domestic production amounted to \$2.1 billion last year, up almost 26% on the year prior. In the first quarter of 2008, output was more than 60% higher than in 2007.

Tractor and combine sales are especially buoyant as farms upgrade to more modern, productive machinery and manufacturers are responding accordingly.

Output of Claas combines assembled at the German company's Krasnodar plant in southern Russia will double over the next 3 years. The plant, which opened 5 years ago, has built 1,000 mid-range combines so far and now features a 'Claas Technoparc' facility for training and product presentations on the complete Claas range.

Rostselmash Pursues Growth. Domestic manufacturers who are keen not to see their market dominated by Western firms are also gearing up to meet growing demand.

At just 8,200 units, annual production is still modest, especially given that almost 70% of Russian-built combines come from one manufacturer, Rostselmash.

However, Rostselmash, which recently acquired Canada's Buhler Industries, is successfully boosting domestic market share and export sales. A 500-combine deal to supply the central European state of Kazakhstan has been signed and the company has appointed a distributor in Turkey.

The company's mid-range Vector combine is Russia's most successful farm machine export. According to Soyuzagromash statistics, it earned \$52.4 million last year or 17% of industry export revenues of \$294 million.

The more advanced Acros combine will lead Rostselmash plans to increase sales. Production will reportedly be increased 300% to 2,000 units this year and is scheduled to grow to 3,500 units in 2009.

Hopes are also pinned on the new RSM181 rotary combine, which is nearing production. It uses a novel threshing and separation to achieve high outputs.

Growing Uneasiness. But while Rostselmash aggressively pursues increased sales in its domestic markets, some manufacturers are feeling uneasy about the growing tensions between Russia and Western countries.

On September 7, while speaking

in Italy, U.S. Vice President Dick Cheney renewed his call for cooperation between Europe and Washington over the crisis in the former Soviet states, which erupted on August 7 when Russia invaded Georgia. During his address, he issued a strong rebuke of Russia and called on Western nations to jointly prevent Russia from intimidating its neighbors. What exactly this kind of tough talk means, if anything, is anyone's guess.

A representative for an American tillage tool manufacturer, who has seen a great deal of equipment exported to take advantage of the strong agricultural growth (and currency exchange advantages) in the former Soviet States, shared his heartburn with *Ag Equipment Intelligence* about the escalating Russia-Georgia crisis.

Because most of the farm equipment exported from North America is being sold into Russia, he worried what might result if the matter is not resolved quickly.

Economic Sanctions? "Think about it," he said. "If there are any economic sanctions placed on Russia, North American manufacturers could quickly be sitting on a whole pile of iron."

Because Russia supplies about one-third of Europe's oil and gas, a decision to impose sanctions would not come easily, but the conflict is something that ag equipment manufacturers may want to monitor. **AEI**

Analysis: Hemisphere GPS Takes Precision Ag Show on the Road

When *AEI* editors visited the Hemisphere GPS booth at the Farm Progress Show last month, Jeff Farrar, ground ag channel marketing manager, and Cheyenne Steffen, public relations manager, marched us right into what they're calling the "Outback Roadshow." It's a mobile demonstration vehicle that's fully equipped to give dealers and potential customers hands-on product demonstrations and training.

While GPS guidance systems have been around for several years, Farrar says the market for these precision ag tools is just now really taking off. The early adopters are well into the new tools, but interest from the "show-me-first" farmers is now gaining momentum, and this is where the real sales growth will come.

The Hemisphere road show is taking the company's message to the customers rather than waiting for them to come and find them. "We're bringing the technology to little-served areas through our Outback Guidance Centers and equipment dealerships around the country," says Farrar. The demonstration vehicle will also be visiting many of the major national and regional equipment shows for at least the next several months.

While *AEI* visited with Farrar, Charlie Rentschler, machinery analyst for Wall Street Access was also at the booth and came away with pretty much the same impression as we did.

In his follow-up report to investors, Rentschler likened

Hemisphere to "a 3-stage rocket still in its initial stage, yet accelerating."

Phase I. According to the analyst, Hemisphere is currently in its first phase of market development, in which it's growing existing products by further penetrating traditional markets and entering new markets. "By dint of above-average technology but extraordinary distribution, Hemisphere dominates the low-price/reasonable functionality aftermarket for agricultural GPS systems. It claims to have about 65% market share," says Rentschler.

Its main products are the S3 light-bar and eDriveTC steering system.

"Management claims that the U.S. markets for light-bars and automatic steering systems are only 25% and 5% penetrated, respectively," says Rentschler.

"While the company has a number of competitors — we would rank Trimble as the toughest — no one, in our view, can match Hemisphere's 'Outback' distribution arrangement of 350 or so 'OTRs' — Outback Territory Representatives — in North America that act as commission sales-agents."

Hiking Spending. Hemisphere is hiking its spending on sales and marketing to 10% of sales from 7-8%.

Probably the single biggest thing these OTRs have been missing, according to Rentschler, is the ability to put on field demonstrations. Hemisphere's management believes its "Outback Roadshow" will go a long way in supporting its sales agents.

Included in the demonstration is a Kubota ATV that's outfitted with the S3 and eDriveTC for demonstration drives that allow prospective customers to experience automatic steering first-hand.

In addition, the company also announced it's taking its existing products into new markets, including Brazil. It recently signed up Stara to be its master distributor in that country. Stara is a well positioned producer of short-line farm machinery (planters, sprayers, etc.) with a first-rate distribution system, according to the Wall Street Access analyst.

"Brazil holds excellent potential for Hemisphere's current products because very few of its tractors come equipped with factory-installed GPS and self-propelled sprayers are very common because of the wide use of genetically-modified seeds and the greater infestation of insects due to the hotter climate," says Rentschler.

Steven Koles, Hemisphere's president, thinks Stara could become his company's largest customer this year.

Phase II. The second phase of Hemisphere's strategy is to develop new products to obsolete current models. "We gather that two of the top projects are, first, greater accuracy (sub-inch) of its automatic steering through beefing up its offering of RTK and, second, 'drive-by-wire' capability, which it inherited when it acquired Beeline last year."

"We believe that Hemisphere's engineers are working hard on these two areas — RTK and "drive-by-wire" — and that the company will introduce exciting new stuff in the next 12-18 months."

Phase III. The third phase of Rentschler's 3-stage Hemisphere rocket will see the company acquire related GPS products, as opposed to in-house development. "We're thinking of things like yield monitors and variable-rate seed and fertilizer applicators," he says.

"At this point, if Hemisphere can't deliver, it might *itself* be gobbled up, which, may turn out best for its shareholders. Our sense is Phase I growth is starting to accelerate."

AEI

USDA Reduces Corn & Bean Yields

The USDA pulled back its yield forecast for both corn and soybeans when it released its revised World Ag Supply & Demand Estimates (WASDE) on September 12. It's now projecting 152.3 bushels per acre for corn, down from 155 bushels from its previous forecast. The agency also dropped its estimates for bean yields slightly to 40 bushels per acre down from its previous forecast of 40.5 bushels.

According to Ann Duigan, analyst for JP Morgan, the market had expected lower yields for both crops, also noting that cash receipts remain very strong.

"We forecast cash receipts from these major crops to reach \$126.4 billion, up 26% year-over-year," she says in a note to investors. "With corn at \$5.50 and soybeans at \$12.35, farm incomes are still at near-record levels and should put them in a good position for continued spending."

Big Equipment Sales Remain Strong in August

North American sales of large ag machinery maintained a brisk pace in August, while sales of smaller tractors remained in the doldrums, according to the latest sales figures from the Assn. of Equipment Manufacturers.

"Industry retail sales of large tractors increased sharply year-over-year, albeit in the seasonally least important month of the year," Robert McCarthy, analyst for RW Baird, says in a note to investors.

At the same time, combine sales were also strong in August, which is a seasonally important month for sales.

- Overall, North American retail sales of row-crop tractors increased 65% year-over-year in August, following a 38% increase in July, and were up 34% in the last 3-month period.

- Sales of combines remained solid in August, increasing 16% year-to-year. Sales in the last 3-month period were up 23%. August is the second most important month seasonally for combine sales — September is the most important — contributing an average of 12% of annual sales over the past 5 years, according to McCarthy.

- Retail sales of 4WD tractors more than doubled in August, up 147% vs. a 49% increase in July. McCarthy notes that August sales of 4WD tractors on average contribute only 4% of annual sales on average. 4WD tractor sales were up 79% in the most recent 3-month period.

- Sales of compact (<40-hp) and mid-range (40-100-hp) tractors continued to weaken, declining 18% and 14% year-to-year, respectively.

- Dealer inventories of large tractors continued to decline year-over-year on a day-sales basis, but increased on absolute basis in July. Row-crop tractor inventories increased 1% on an absolute basis, but declined 26 days-sales, to 83 days-sales vs. 109 days-sales in the prior year. 4WD inventories jumped 11% on an absolute basis — 79 days-sales vs. 89 in July 2007 — and combine inventories declined 18% to 58 days-sales from 83 in the prior year.



AUGUST U.S. UNIT RETAIL SALES



Equipment	August 2008	August 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	August 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,295	9,375	-22.2	73,962	85,970	-14.0	57,962
40-100 HP	5,395	6,691	-19.4	47,815	54,833	-12.8	35,290
100 HP Plus	1,855	1,095	+69.4	16,836	12,979	+29.7	5,460
Total-2WD	14,545	17,161	-15.2	138,613	153,782	-9.9	98,712
Total-4WD	374	149	+151.0	2,627	2,139	+22.8	848
Total Tractors	14,919	17,310	-13.8	141,240	155,921	-9.4	99,560
SP Combines	793	773	+2.6	4,642	4,174	+11.2	1,201

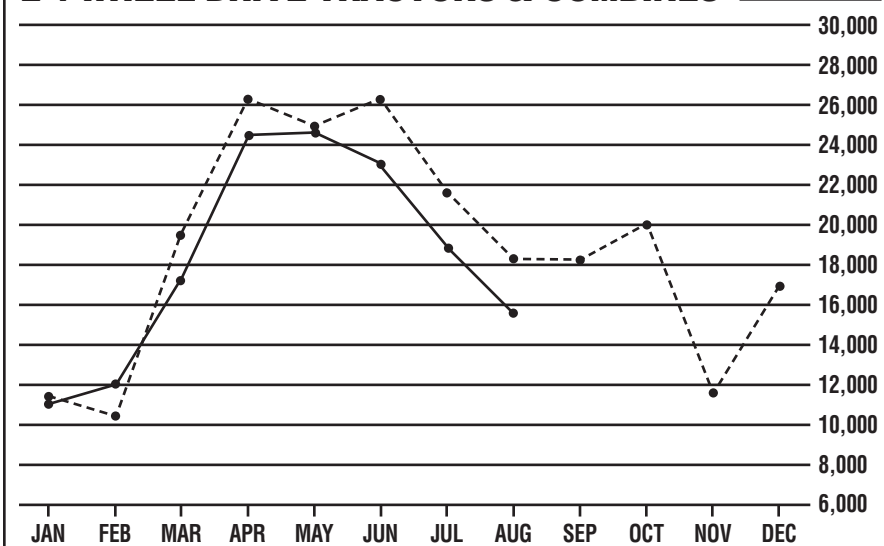
AUGUST CANADIAN UNIT RETAIL SALES



Equipment	August 2008	August 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	July 2008 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,089	832	+30.9	9,764	7,991	+22.2	6,150
40-100 HP	753	430	+75.1	5,438	4,355	+24.9	3,104
100 HP Plus	302	210	+43.8	2,958	2,393	+23.6	1,306
Total-2WD	2,144	1,472	+45.7	18,160	14,739	+23.2	10,793
Total-4WD	38	18	+111.1	838	468	+79.1	115
Total Tractors	2,182	1,490	+46.4	18,998	15,207	+24.9	10,908
SP Combines	381	240	+58.8	1,584	1,010	+56.8	588

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

— 2008
--- 5 year average



—Assn. of Equipment Manufacturers

Deere's Aggressive Moves Suggest That It's Looking Well Beyond 2009

It's clear that John Deere's report of strong third-quarter financial results on August 13 was only a prelude for a variety of strategic moves aimed at bolstering its position as the world's most dominant farm machinery maker.

Since reporting its financials in mid-August, in which the company reported its ag equipment sales rise 35% during the period and 34% for the first 9 months of the year, Deere has issued a flurry of major announcements. These ranged from the issue of \$6 billion in

"It appears that Deere is getting its house in order for a major push into what will be another strong year for agriculture in 2009 — and beyond."

asset-backed securities to major expansions of its North and South American manufacturing capacity.

It would appear that Deere & Co. is getting its house in order for a major push into what it believes will be another strong year for agriculture in 2009 — and beyond.

Floor-Plan Financing? On August 14, Reuters reported that John Deere Receivables planned to issue up to \$6 billion of asset-backed securities, possibly to finance dealership floor plans. The securities, which will be issued under separate trust, are backed by Deere & Co.'s farming machinery.

"By the size of the filing, it looks like proceeds will be used to provide financing for floor plans at the dealerships," said one portfolio manager.

Enhanced Parts Service. Deere followed that move with an announcement on August 15 that it will expand its parts service capabilities in the U.S. and Canada by investing in capacity expansions at the company's primary parts distribution center in Milan, Ill., and three additional locations in the western U.S. and Canada. Deere says it plans to expand the Milan facility by over 300,000 square feet.

Corn Stover Research — On August 26, Deere said that it was join-

ing two other agricultural giants — Archers Daniel Midland and Monsanto — to collaborate on research to explore technologies and processes to turn crop residues into feed and bioenergy products.

In a joint press release, the companies said they would work together to identify environmentally and economically sustainable methods for the harvest, storage and transport of corn stover — the stalks, leaves and cobs of corn plants. Corn stover can be used in feed for animals, as biomass to generate steam and electricity or as a cellulosic feedstock for biofuel production.

The USDA forecasts that in 2008, farmers will harvest 12.3 billion bushels of corn, resulting in 290 million tons of stover.

Expanding NA Capacity. On August 28, Deere said it planned to invest \$97 million to further expand its North American manufacturing capacity of its high-horsepower tractors by about 40% and increase capacity for other tractor components and service parts. The company said both projects are expected to be complete by early 2010.

Investment in Brazil. Also on August 28, Deere said that it would invest nearly \$80 million in its ag manufacturing and parts distribution operations in Brazil to increase manufacturing capacity for both tractors and combines and to improve service to customers.

Closing Canadian Plant. Less than a week later, on September 3, Deere announced that it is closing its Welland, Ontario, plant and transferring production of Gator utility vehicles to facilities in Horicon, Wis., which also produces other UTV models and riding lawn equipment. Production of cutting and loading attachments from Welland will be moved to Monterrey and Saltillo, Mexico. Closing the plant in Ontario will eliminate 800 jobs and is scheduled for the end of next year.

New 'Green' Marketing Center. Deere made news again on September 5, when it announced that it is planning to build a new 126,150 square-foot marketing and sales center in Olathe, Kan. The facility will house more than 400

marketing personnel who support Deere's sales branches and ag dealerships in the U.S. and Canada.

Outlook Remains Robust. In its outlook for the remainder of 2008, Deere expects its worldwide sales of ag equipment to increase by about 38%. Farm machinery sales in North America are projected to rise 20-25% for the year, led by a substantial increase in large tractors and combines. The company also sees South American markets showing further improvement with industry sales forecast to increase by about 40% for the year. Deere's commercial and consumer equipment sales are projected to be up about 4% in '08.

In his analysis, Robert McCarthy, analyst for RW Baird, also sees robust sales for ag equipment in 2009, despite rising cost for inputs.

"Recently announced price increases averaging roughly 10% for large agricultural equipment and 0-6% for commercial and consumer prod-

"Deere expects its worldwide sales of ag equipment to increase by about 38%. Farm machinery sales in North America are projected to rise 20-25% for the year, led by a substantial increase in large tractors and combines..."

ucts are expected to more than offset input cost inflation in fiscal year '09," McCarthy wrote in a report to investors on August 14.

"Early indications of fiscal 2009 agricultural equipment demand appear robust, with retail requests for large tractors in the U.S. and Canada up dramatically year-over-year. Deere's expected combine production capacity is already 70% sold out — though some demand likely pulled forward ahead of recent price increases. International ordering activity is also strong in South America, Eastern Europe and the CIS," says McCarthy. **AEI**