From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Flat Sales Year in '07
- September Sales Slip
- Tomorrow's Hot Spots

Muelhausen Out at McCormick, Morra New U.S. President

Swede Muelhausen has been replaced as president of McCormick USA, less than a year after being appointed to the position. His successor is Simeone Morra, a member of the Morra family that owns Argo, S.p.A., the Italian owner of McCormick International that includes McCormick and Landini tractors.

Morra is the third president of McCormick International since August 2005. Muelhausen was appointed president only last November. He replaced Kim Robinson as president, who was named to the position in August 2005.

In an October 10 letter to McCormick and Landini Tractor dealers, Valerio Morra, Argo Group president, said, effective immediately, "Swede Muelhausen has left his position with McCormick USA. We wish to thank Swede for his effort and contribution to the business over the past year."

The letter states that Simeone Morra "will assume full responsibility for all McCormick's business interest in the U.S."

According to the letter, Simeone Morra's entire career has been spent in the farm equipment industry, primarily with Argo's McCormick Tractors International.

One McCormick dealer-principal, who actually heard of the news from *Ag Equipment Intelligence* staff, appreciated that Muelhausen personally visited his dealership recently, but did not see the change coming.

"Everybody's sales are down on tractors, it's nothing unique to McCormick," he says. "No one is setting the world on fire with high-ticket equipment."

Muelhausen oversaw the consolidation of the McCormick and Landini brands in the U.S. in early 2006 and the move of its headquarters from Pella, Iowa, to Norcross, Ga.

Argo's sales totaled more than $1 billion in 2005.

Exec scorecard see page 2

Farm Equipment Makers See Slowdown Ahead

Deere Says It's Ready for Potential Downturn

It appears that John Deere is looking ahead toward a slowdown in its core markets in 2007, but has formulated a strategy that will allow it to maintain a healthy operating ROA, regardless of the markt.

Commenting in his September 22 report on the recent Deere analyst meeting, Robert McCarthy, Baird analyst, says that Deere is focusing on the redevelopment of its core tractor manufacturing operations and related improvements in cost structure, asset utilization and earnings power. "Deere appears likely to generate improved returns through the cycle and, importantly, at the next trough," says McCarthy.

Deere's long-term objective is to maintain a 12% operating return on assets through the next downturn. The company estimates it will soon have completed initiatives that could enable it to deliver a 9-10% return if the trough hits in 2007.

According to McCarthy, Deere believes it can sustain 7% revenue and its strategic value assessment (SVA) growth through the cycle. The ag equipment maker has reportedly identified "attractive incremental growth potential."

"Deere's primary objective can be summarized as rais-

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AGCO Lowers Outlook for Third Quarter and Year

Agco Corp. lowered its financial outlooks for the third quarter and the full year, in large part, blaming its North American segment for the shortfalls. On October 6, the company reported this year's sales will decline 2-3% from last year, when sales were $5.45 billion.

The company also says third-quarter sales will be roughly 6% below year-earlier sales of $1.2 billion. Net income for the quarter is expected to break even or come in at a slight loss. Previously, it estimated that third-quarter sales would decline 1-2% from the year-earlier period.

Management attributed about one-third of the reduction in its 2006 earnings outlook to a higher tax rate, one-third to weaker-than anticipated results in North America and one-third to the combined shortfall in Asia Pacific and South America.

According to David Bleustein, UBS analyst, AGCO management forecasts third quarter margins to be roughly 1% below its prior expectations, driven by unfavorable pricing and product mix, unabsorbed overhead and higher warranty costs.

"For the fourth quarter, management expects profit

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Deere Continued from page 1

ing and stabilizing profitability," says McCarthy. "Improved asset utilization is the enabler. Since the fiscal year 1998 peak, its ag equipment segment sales have increased by $3 billion while identifiable assets have declined by $2 billion."

While Deere didn't identify any new initiatives to more fully utilize its excess liquidity, says McCarthy, "the company did indicate an ongoing interest in strategically consistent and affordable acquisitions. Management expressed particular interest in expanding its service businesses and water management."

The company also believes that the nearly completed redevelopment of its Waterloo tractor operations will soon pay dividends. Deere estimates that program will yield $26 million in annual savings and an $88 million decline in factory and field inventory levels, compared with a investment of less than $150 million.

"This is significant in the longer term," says McCarthy. "We calculate a return exceeding 40%, with unquantified incremental competitive benefits from more responsive manufacturing systems." AEI

AGCO Continued from page 1

improvement to be driven by a better alignment between retail and dealer sales in North America as retail sales are expected to be down 6%-7%," says Bleustein. "Management expects production to increase roughly 10% in the fourth quarter."

Market conditions in North America have softened in the last few months, particularly in tractors, combines, sprayers and hay equipment, according to Andrew Beck, AGCO's CFO. "The weaker market conditions have led dealers to be more conservative in the restocking of orders," he says.

AGCO noted that its North American market share through August in the larger than 100-hp tractor category is at or above prior year levels, but also pointed out that it lost market share in 40-100 hp tractors. This was related to a product line manufactured in Brazil, driven by a strong Real and cost situation. AGCO also lost market share in combines, but noted some recent improvement, with market share in sprayers relatively unchanged. Management noted market share gains with Challenger dealers. AEI

Mahindra Set to Sell Tractors in Iran

India automotive group Mahindra & Mahindra, Ltd. reported on October 11 that it has formed a distribution alliance with Iran Tractor Manufacturing Co., Tehran, to sell its farm tractors in Iran. Terms of the accord were not disclosed.

The company said its 6000 DI model unit is the first vehicle that Iran Tractor Manufacturing would begin to sell this month. With 80% share in the Iran farm tractor market, Iran Tractor Manufacturing is seeking to distribute vehicles that meet specific local needs in Iran, Mahindra & Mahindra says.

M&M says its sales last year totaled $3 billion and claims to be one of the top-top five tractor makers worldwide and the market leader in multi-utility vehicles in India. AEI

GOT NEWS?

Contact Dave Kanicki, managing editor, at 800-645-8455 ext. 414 or at dkanicki@lesspub.com.

UNSTEADY TIMES FOR AG EQUIPMENT EXECS

The past year has been challenging for many of the top managers of the largest farm machinery companies, perhaps reflecting some general instability or the growing competitiveness of the industry.

All told, more than a dozen significant top mangement moves were announced between August 2005 and September 2006. Here's a scorecard of management changes — so far.

August 2005

✔ Kim Robinson named president of McCormick International.

November 2005

✔ Swede Muelhausen named president of McCormick International USA replacing Robinson.

January 2006

✔ Bob Crain leaves vice president post at New Holland to accept position of vice president and GM North America with AGCO. Dennis Recker succeeds him.

✔ Michael Mack, Jr., promoted to senior vice president and CFO at John Deere replacing Nathan Jones, who is promoted to president of worldwide commercial & consumer equipment division.

✔ James Israel named president of Deere's finance unit replacing Jon Volkert who elected to retire.

April 2006

✔ Jim Walker, vice president sales & marketing for AGCO, leaves the firm. Bob Crain, newly appointed VP & GM North America assumes Walker's responsibilities.

June 2006

✔ Frank Anglin, vice president North American Agricultural Business, leaves Case IH and the industry. Jim Walker, formerly of AGCO, replaces him.

August 2006

✔ Robert Ratliff retires as chairman of AGCO. Martin Richenhagen, AGCO president & CEO, succeeds him as chairman.

September 2006

✔ David Clarke replaces Dennis Recker at New Holland as vice president agricultural business North America. Recker says he will retire. Clarke joined New Holland in 2005 from NACCO Material Handling Group.

✔ CNH replaces Mario Ferla as president of its Case IH brand with Randy Baker, who joined the firm in October 2005.

✔ CNH replaces Jim Sharp, president of parts and services, with Michel Lecomte, previously CNH CFO.

✔ Rubin McDougal is appointed CNH CFO.

October 2006

✔ Swede Muelhausen is replaced as president of McCormick International USA by Simeone Morra. AEI

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AEI's 2007 Business Trend Survey: Dealers Looking at Flattening Sales

Most North American ag equipment dealers knew the record-breaking sales of 2004 and 2005 couldn't last forever. While the early part of 2006 continued to produce solid sales, it appears the recent slowdown will continue into '07, according to the results of the most recent survey by the editors of *Ag Equipment Intelligence*.

Nonetheless, dealers aren't all discouraged about what they see for the coming year.

While the general consensus is that unit sales during the coming year will be flat — gaining less than 1% — dealers still see solid prospects for improving unit sales in many segments in 2007, as shown in the accompanying table.

A complete, in-depth report on this year's survey will be sent to all *Ag Equipment Intelligence* subscribers in early November. **AEI**

Best Bets for Improving Unit Sales in 2007

GPS/Auto-Steer	93.1%
Pull-Type Sprayers	88.0%
Rectangular Balers	87.5%
Self-Propelled Sprayers	87.3%
Farm Loaders	86.2%
Lawn & Garden	85.2%
2WD Tractors (40-100 HP)	82.1%
Air Seeders/Drills	81.7%
2WD Tractors (<40 HP)	81.6%
Mower/Conditioners	81.4%
Windrowers/Swathers	81.1%
Disk Harrows	79.4%
Forage Harvesters	78.4%
Round Balers	78.2%
Planters	78.1%
Self-Propelled Combines	77.4%
4WD Tractors	76.4%
Chisel Plows	74.3%
2WD Tractors (>100 HP)	73.1%
Cultivators	70.7%

0 20 40 60 80

More than 400 dealers ranked various equipment categories as "best bets" for improving sales in the coming year. The numbers represent the percentage of respondents that believe unit sales will be "as good or better" in 2007.

WHERE DEALERS EXPECT BIGGEST UNIT WHOLEGOODS SALES GAINS

Washington	6.83%	Hawaii	2.25%
Utah	6.25%	Wisconsin	1.54%
California	4.83%	Florida	1.50%
Arizona	4.50%	South Carolina	1.50%
Maryland	4.50%	Pennsylvania	1.32%
New Jersey	4.50%	Indiana	1.23%
New Mexico	4.50%	Georgia	1.11%
West Virginia	4.50%	Kentucky	1.04%
Oklahoma	4.36%	Missouri	0.45%
Connecticut	3.13%	Texas	0.30%

ANALYST LOOKING FOR 'FLAT' YEAR IN '07, BUT A BOUNCE BACK IN '08

Commenting on the October 10 sales figures for ag equipment coming from the Assn. of Equipment Manufacturers, which saw North American retail equipment numbers fall nearly 30% in September, David Bleustein, analyst for UBS Investment Research, is forecasting "flat" sales for farm machinery in 2007. But he says better things are ahead in 2008.

"We're looking at a difficult year for farm equipment in 2007, says Bleustein. "We expect 2007 farm machinery demand to be flat-to-down slightly, as elevated input costs (fuel, fertilizer), higher interest rates and uncertainties surrounding a new farm bill inhibit near-to-medium term demand.

"For 2008, we expect farm machinery sales to be up 10%, driven by a surge in farm commodity prices in 2007, coupled with some moderation in energy prices and interest rates," he says. **AEI**

FARM MACHINERY TICKER (AS OF 10/13/2006)

Mfr.	Symbol	10/13/06 Price	9/13/06 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	$27.75	$25.39	$28.69	$14.60	93.97	1.36 M	2.48 B
Alamo	ALG	$21.34	$22.93	$26.00	$18.75	17.93	10,200	208.32 M
Art's Way	ARTW	$6.75	$6.33	$9.19	$4.50	14.07	4,900	13.32 M
Caterpillar	CAT	$69.08	$66.33	$82.03	$48.25	14.58	6.00 M	45.30 B
CNH	CNH	$20.70	$21.80	$30.50	$15.79	27.53	274,100	6.29B
Deere	DE	$88.90	$81.26	$91.98	$56.99	14.79	2.89 M	20.55 B
Gehl	GEHL	$28.27	$25.87	$40.73	$20.58	12.73	71,200	343.62 M
Kubota	KUB	$42.83	$39.75	$60.60	$32.98	16.29	22,900	11.13 B

Andlinger & Co. Acquires German Equipment Maker Welger

German farm machinery manufacturer, Welger, is set to benefit from management expertise and increased working capital following the acquisition of a majority shareholding in the business by the U.S. private investment group, Andlinger & Co., Inc., Tarrytown, N.Y.

Stefan Lindig, Welger's managing director, states: "The involvement of Andlinger puts the company on an entirely new basis. The fresh capital will help generate further growth, particularly in the markets of the new European Union member states and will allow previously deferred developments to be put into effect. Additional benefits will result from Andlinger's extensive industrial experience."

Andlinger & Co., Inc., established in the U.S. in the 1970s, is a private investment and management group with offices in Europe and the U.S. It acquires controlling positions in companies or corporate divisions with growth potential valued up to $250 million and has a portfolio of 13 companies with a total sales turnover of $1.9 billion.

Welger Maschinenfabrik, GmbH, based at Wolfenbüttel near Hannover, Germany, specializes in round and square balers and bale wrappers. It also produces balers for the waste recycling industry.

The company was formed in 1899 and operated as a privately-owned business until 1994, when it was bought by Welger's biggest distributor, Lely, the Dutch agricultural engineering group.

A management buy-out in 2003 saw Welger regain independence, albeit with Lely retaining a minority share. Prior to the Andlinger transaction, Welger concluded a long-term sales cooperation agreement with Lely for baler and bale wrapper distribution in Austria, Belgium, France, Ireland, Italy, the Netherlands, New Zealand and the U.K.

Today, the company employs 350 and has a sales turnover equivalent of $77 million. It is the only farm machinery company found among Andlinger's diverse portfolio of engineering businesses.

Andlinger decided in favor of this investment because of the comprehensive strategic and operational changes that Welger's successful turnaround management has implemented over the past few years, says Gerhard Unterganschnigg, a partner at Andlinger's European office in Vienna, Austria. The investors provide substantial financial strengthening for Welger and the resources required for future growth.

Welger claims to have increased market share in recent years, especially in Europe where it competes mainly with Case IH, Claas, Krone and New Holland for both round and square baler sales.

Exports account for 85% of production to markets worldwide, with the exception of the U.S., notes Markus Kube of Welger's sales and marketing department. At present, the company's interests in the Americas are represented by DFK Equipment Sales, Inc. in Canada and Swissmex-Rapid SA de CV in Mexico. AEI

Lindner Posts Gains on Solid Tractor Sales

Lindner, the Austrian specialist tractor manufacturer, reports sales turnover was up by the equivalent of $5 million to just over $70 million in its financial year to March 2006. The increase came from sales of Geotrac farm tractors — which sold some 1,250 units — and Unitrac harvest/transport vehicles (1,400 units), which are designed for Alpine terrain.

Domestic sales continue to account for the majority of Lindner's activity, as it holds a strong third place market share behind CNH Global and AGCO in the 6,000-unit Austrian market. But exports rose from 27% to 34% in the financial year, with one-third of export sales going to neighboring Germany, while upland areas of Switzerland, Italy, France and Slovenia (part of the former Yugoslavia) remain important markets.

The appeal of the Perkins-powered Geotrac, says Lindner, is its combination of compact size and stability. There are five models from 65-99 hp. The four models from 65-102 hp Unitrac front-cab utility tractors are used with hay gathering/transporting systems and specialist equipment such as snow clearance machinery.

Hermann Lindner, who heads the private family-owned firm, has set a sales target equivalent to $74 million for the current year. AEI

Deere's Aim for Faster Polish Expansion Facing Hurdles

Deere & Co., Moline, Ill., is planning to speed up its push into the Polish market in 2007, despite challenges there.

According to published reports, Deere wants to increase sales in the Polish market by more than $16 million this year. The value of the firm's farm equipment in Poland totaled nearly $646 million in 2005.

Poland's farm equipment market appears to be promising due to old machinery that needs to be replaced, according to John Deere Polska president, Miroslaw Lesczynski. He also added that buying new machines in Poland has been made easier with funds provided by the European Union.

However, Lesczynski also acknowledges that there are some significant concerns in the region. The firm's main problem is the collapse of agriculture in Poland. The average farm in Poland is only 22 acres, while Deere's machinery is generally used to accommodate larger farms.

An additional concern includes the price of Deere's farm machinery, which range from $39,000-260,000.

The company is planning a faster expansion with a view to developing a dealer network based on independent entrepreneurs. Its strategy has seen its number of selling points rise from 17 to 23 this year alone. AEI

Manitou Reports 10% Sales Rise in First Half of '06; Ups Its Stake in Gehl

Manitou, the France-based manufacturer of vertical mast and telescopic boom rough terrain handlers, has reported a 10% increase in sales for the first half of this year and an increased shareholding in Gehl, Inc., West Bend, Wis., its North American telehandler partner.

Noting that the company's financial performance in the second half of 2005 was dragged down by non-recurrent charges and launch expenses for a number of projects, President & CEO Marcel-Claud Braud reports "significantly restored profitability" for the first half of the current year, with an operating margin of 12.8% on sales equivalent to $743 million at current exchange rates.

"Sales in the first half of this year were 10% higher compared with the first half of 2005, which had featured particularly strong growth," says Braud. "Manitou accelerated its international business and confirmed its capacity to find new sources of growth, notably outside the European Union."

While EU sales grew 8.3% overall, the company's sales revenues from other countries in Europe increased by 84%, Latin America by 28% and North America by 21%.

Manitou benefits from a strategic alliance with Gehl in North America: its wholly-owned North American subsidiary, based in Waco, Texas, sells construction-specification handlers supplied by the West Bend company and generates earnings from the compact farm and light construction telehandlers that Gehl builds under license at its Yankton, S.D. facility.

Following the 2004 alliance, Manitou paid $19.8 million, acquiring a 12.87% share in Gehl and gained a seat on the board. Its mid-year report reveals the purchase on the open market during the first half of this year of additional shares that lifted Manitou's stake in Gehl to 13.39% at mid-year.

Manitou notes that while telehandler penetration into the North American farm equipment market remains modest, it is still a significant sector for the company in Europe. Overall, Manitou handler sales to agriculture grew 6% last year, accounting for a quarter of the group's global revenues of $1.25 billion. AEI

Farm Equipment Industry Notes & Newsmakers

McCormick Tractors International, Ltd., a unit of Argo S.p.A, has named **Jeremy Lamb** as its new director of sales and dealer development in the U.K. Lamb will oversee U.K. dealer development and sales initiatives for products produced by McCormick's parent. He formerly served as a consultant to international farm machinery firms. Prior to that, he was a senior director of CNH Global N.V.'s Case Corp. unit in Europe.

Dr. Alessandro Buscaglia has been appointed general manager of the **Tonutti Group**. Dr. Buscaglia has been with Tonutti for several years as the financial director of the group and managing director of various production facilities. The decision is part of a reorganization of the fast-growing Tonutti Group. The move is planned to allow Carlo Tonutti, the president of the Tonutti Group, to focus on future strategies for the group.

MaxiForce Diesel Engine Parts, Miami, Fla., which provides parts for John Deere, Cummins B&C Series and Perkins Engines, has announced the opening of its new West Coast warehouse in southern California. The new warehouse will allow parts to be delivered in 1-3 days for the Western U.S., including Wash., Ore., Calif., Nev., Idaho, Utah, Colo., Ariz. and N.M.

Hardi North America has named **Rex Guthland** as its new president and CEO. He will assume the position held by **Tom Kinzenbaw,** who is retiring after 18 years with the firm. Guthland will be responsible for overseeing operations in London, Ontario, Visalia, Calif., and Davenport, Iowa. He most recently served as global sales director for Hypro Corp., where he was responsible for coordinating all the global markets. Hardi, Inc. is the North American subsidiary of the Danish Co., Hardi International A/S, one of the world's leading manufacturers of spray application equipment.

Graeme MacDonald has been named president, **JCB, Inc. — The Americas**, and will head up JCB's North and South American operations based in Savannah, Ga. JCB also named **Matthew Taylor** as its first COO. Taylor is responsible for the day-to-day operations of JCB worldwide with the exception of North and South America.

Seed Hawk, Inc., Langbank, Saskatchewan, has signed an agreement to sell a minority share in the company to **Vaderstad-Verken**, a Sweden-based farm equipment company. Vaderstad is one of Europe's leading manufacturers of equipment for soil cultivation and seeding. All of their products are manufactured in Sweden with eight fully owned subsidiaries plus a number of importers that distribute product to 30 markets in Europe and Asia. A new subsidiary is currently being established in the Ukraine. Seed Hawk is currently working on a new opener. The company is planning to add manufacturing capacity with a new facility near Langbank to accommodate forecasted growth.

Landoll Corp., Marysville, Kan., has acquired the "To The Max" harrow that was originally designed and marketed by **Precision Planting**.

Mahindra & Mahindra, Ltd., Mumbai, India, has obtained a contract for undisclosed terms with the Government of The Gambia to supply farm tractors and implements. The firm also said it would launch a new satellite plant that will aid in overseeing the assembly of the tractors for the African country, as well as sales, service support and training for local mechanics. Mahindra & Mahindra is aiming to ink pacts with more countries in Africa to enhance its brand in the region. Mahindra also has a joint venture with China's Jiangling Motors Co. and is eyeing acquisitions in Europe.

Komatsu, Ltd., Saitama, Japan, has obtained a preliminary agreement to sell all of the assets of its outdoor power equipment — the Komatsu Zenoah brand — to **Husqvarna, AB,** of Sweden. The sale includes Komatsu Zenoah's two-cycle engine technology.

Will America's Non-Competitive Manufacturing Picture Spurs More Machinery Imports?

A new study by the National Assn. of Manufacturers and the Manufacturers Alliance shows that U.S. global competitiveness declined sharply over the last 3 years.

One of the keys remains the wage disadvantage over 10 other competing nations. Relative wage costs — after productivity adjustments — consume 47 cents of every dollar of output.

This figure compares with an average of 39.5 cents for the 10 nations. Even more, it is four times that of China.

But it's not all about wages; it's the other layers of cost. These external costs have escalated to 31.7% of production costs, or a disadvantage of $6 per hour vs. the other 9 nations. This represented a 9.3% increase over the last 3 years.

- ***Energy Costs*** **—** previously were an advantage, but a 0.7% disadvantage by 2006.
- ***State and Federal Tax Burden*** — at 40%, it is 7.6% above the 10-country average and up 2% for each of the last 3 years, as other nations have lowered their tax rates. China and Taiwan are the lowest at 25%. Ireland, while not in the study, lowered its corporate tax rate to 12% and its economy is now booming.
- ***Health/Benefit Costs*** **—** at 22.9% of total compensation, this is 6.8% higher than the average.
- ***Regulatory Compliance*** **—** represents 1.7% of extra costs.
- ***Tort Cost*** **—** at 2.2% of GDP, this is the highest in the group of studied nations and rising.

Without a change in policy, one can surmise that all global manufacturing exporters — including those in farm machinery — will continue to find fertile ground in the U.S. **AEI**

Fendt Increases Sales with Bigger, More Expensive Tractors

Fendt, AGCO's premium tractor brand, may be making slow progress in North America, but the Germany-based unit still achieved record sales and revenues last year regardless of difficult trading conditions in some key European markets.

With industry tractor sales in France down 10%, Spain down 10% and Italy down 3% last year, Fendt welcomed a continuing shift in demand toward its bigger, more expensive tractors. Revenues at AGCO GmbH, the Fendt manufacturing and German sales company, increased 7.1% to $1.04 billion in the last 12 months.

Speaking to *AEI* at the annual results conference and new products launch, Hermann Merschroth, Fendt vice-president, explained, "Net sales rose principally because of a shift in the product mix, with greater numbers of high horsepower tractors sold, generating bigger revenues. Also, net sales increased for our other product lines to represent about 10% of total revenues."

In addition to manufacturing Fendt tractors for sale worldwide, AGCO GmbH sells Fendt-branded combines and distributes Challenger track tractors and Ag-Chem application vehicles in Germany. It also generates revenues from its used equipment operation and sales of Vario stepless transmission units to other OEMs.

The number of tractors sold by the Marktoberdorf plant hit a record high last year, 42 units up on 2004 output at 11,390. Merschroth is confident the figures will improve further this year thanks to some recovery in Europe and growing demand for the high-tech Fendt product line in Eastern Europe.

"We have revised our 2006 sales plan upwards by 4%, or 500 tractors, from 11,700 units to 12,200," he told *AEI*. "We anticipate revenues for the year of 900 million euros."

Merschroth added, "Sound markets are developing in the new European Union countries as confidence in the EU grows and farm businesses have the inclination and ability to invest."

Having landed a large sales contract in Belarus for the first time, the Fendt vice president is confident of growing demand from AGCO SM, the Moscow-based distribution joint-venture that will soon start distributing Fendt and Valtra tractors in Russia and Kazakhstan.

"In 2005, we sold around 480 Fendt tractors in the region," noted Merschroth. "This year, we anticipate sales reaching 700 units." **AEI**

Topcon Acquires KEE Technologies, Aims for 40% Ag Market Share

In acquiring KEE Technologies, a manufacturer of the ZYNX system that monitors and controls seeders, sprayers, spreaders and harvesters in real time, Topcon Positioning Systems, Inc. (TPS) says it is aiming for a 40% share of the agricultural market.

TPS is a developer and manufacturer of positioning equipment, control products, software and applications.

Ray O'Connor, president and CEO of TPS, says that this strategic move improves the focus for Topcon's ag segment, and is another step in its plan to grow the business around the world.

"Topcon moved into the construction market approximately 10 years ago with less than 1% of the market, and today we have approximately 40% share," he says.

"Combining Topcon and KEE and leveraging Topcon-Sauer Danfoss, our joint-venture company which provides approximately 70% of the worldwide steering hydraulics for tractors, should allow us to easily achieve our minimum target of 40% market share," he says.

KEE management and 70 current employees will be retained. **AEI**

U.S. Farm Machine Sales Fall; Canadian Sales Up Again

U.S. sales of farm tractors and self-propelled combines, declined for the fourth consecutive month after falling in September by 16.4% to 17,253 units from 20,639 units one year earlier, according to figures released on October 10 by the Assn. of Equipment Manufacturers.

At the same time, Canadaian sales of farm tractors and self-propelled combines rose for the fifth straight month after rising in September by 7.4% to 1,548 units from 1,441 units last year,

In total, North American retail sales fell on a year-to-year basis across all tractor classes again in September. While September is a seasonally less important month for large tractor sales — contributing an average of only 6% of annual sales — combine retail sales declined 33% year-to-year at the height of the fall selling season, according to Robert McCarthy, analyst for R.W. Baird.

"Industry data continues to underscore the current North American demand weakness facing agricultural equipment manufacturers," he says.

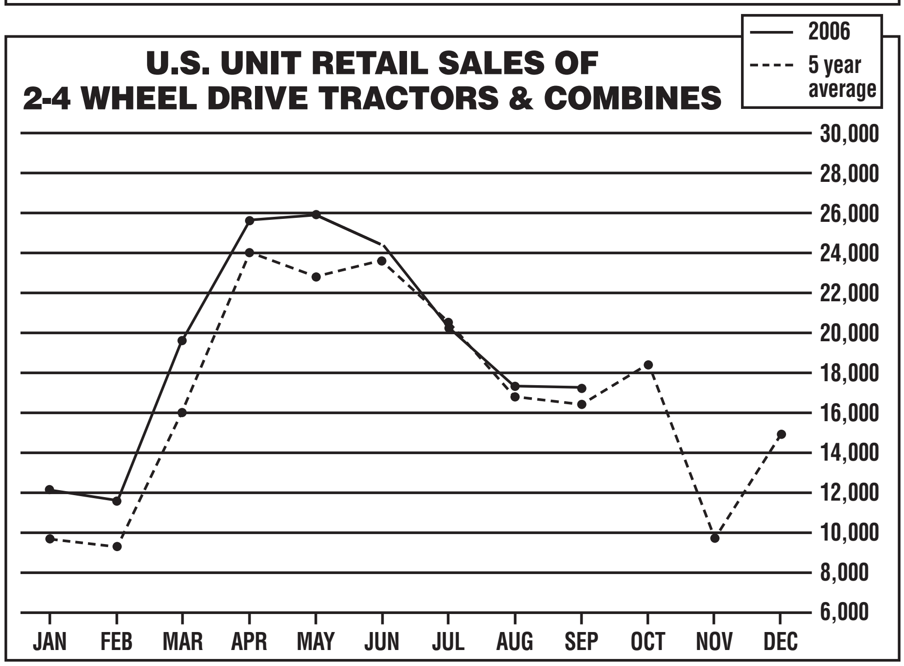
- North American retail sales of row-crop (2WD >100 hp) tractors declined 24% in September after a 21% decline in August; year-to-date row-crop tractor sales are now 14% below 2005 levels.
- North American retail sales of 4WD tractors declined 15% in September after a 38% decline in August, leaving year-to-date 4WD tractor sales 15% below prior-year levels.
- August combine retail sales fell 33% year-to-year and are now down 9% for the first 9 months of '06. September is the most important month seasonally for combine sales, contributing 14% on average to annual sales.
- 4WD dealer inventories increased on a days-sales basis in August, adding 4 days-sales, while row-crop dealer inventories decreased by 3 days-sales. Combine inventories followed normal seasonal patterns and increased 13 days-sales. AEI

SEPTEMBER U.S. UNIT RETAIL SALES

Equipment	September 2006	September 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	August 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	9,445	11,700	– 19.3	98,809	102, 750	– 3.8	61,479
40-100 HP	5,940	6,269	– 5.2	58,237	58,162	+0.1	36,009
100 HP Plus	843	1,180	–28.6	12,100	14,518	– 16.7	6,027
Total-2WD	16,228	19,149	– 15.3	169,146	175,430	– 3.6	103,515
Total-4WD	216	265	– 18.5	2,193	2,664	– 17.7	1,003
Total Tractors	16,444	19,414	– 15.3	171,339	178,094	– 3.8	104,518
SP Combines	809	1,225	– 34.0	4,472	5,064	– 11.7	1,885

SEPTEMBER CANADIAN UNIT RETAIL SALES

Equipment	September 2006	September 2005	Percent Change	YTD 2006	YTD 2005	Percent Change	August 2006 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	689	616	+11.9	7,392	6,062	+21.9	5,051
40-100 HP	494	423	+16.8	4,903	4,467	+9.8	3,491
100 HP Plus	213	217	– 1.8	2,602	2,563	+1.5	1,639
Total-2WD	1,396	1,256	+11.1	14,897	13,092	+13.8	10,181
Total-4WD	26	19	+36.8	456	439	+3.9	237
Total Tractors	1,422	1,275	+11.5	15,353	13,531	+13.5	10,367
SP Combines	126	166	– 24.1	1,220	1,176	+3.7	539



—Assn. of Equipment Manufacturers

Tomorrow's Economic Hot Spots: Russia and Vietnam

With populations of more than 1 billion people each, it's no wonder that China and India are the two fastest growing economies in the world and places that other countries are flocking to for the next stage of worldwide growth.

But it may seem ironic to some in the U.S. that two of the countries with which Americans were at odds during the late 20th century — one in a cold war and one in a hot war — are now emerging as two of the fastest-growing economic markets in the world. But this is the consensus of many of the top U.S. economic strategists.

These two far-flung nations are rapidly emerging as places that U.S. companies with an eye toward growing worldwide no longer can afford to ignore, either as a source of economic labor or as a new market for goods and services.

Randy Myers writing in the Nov./Dec. 2006 issue of *Corporate Board Member* Magazine, reports that companies like farm machinery maker, John Deere, are hustling to establish manufacturing and marketing footholds in places like Russia.

According to Myers, "While intellectual-property rights are weak, corruption pervasive, and the government's commitment to private enterprise shaky, the country is rich in natural resources, including timber and farmland — which helps explain why Deere & Co. sees it as a great place to sell tractors. Deere, which has a Russian website to promote farm equipment in the Cyrillic alphabet, has been doing business there since 2003, when it opened a representative's office to explore sales and investment opportunities.

"Last year it started assembling tractors at a plant in Orenburg, about 800 miles southeast of Moscow, and it has set up spare-parts outlets in Moscow and St. Petersburg. According to Russia's Agriculture Ministry, Deere is also thinking about building a complete tractor plant in the country. 'Deere officials have met with various government officials,' a company spokeswoman confirms, 'but it would be premature to comment on what might come from these discussions'."

"Russia is the next big emerging market," Peter Morici, a professor of international business at the Univ. of Maryland, says. "It has size, oil wealth, and technology, and it will get organized to succeed."

Other examples of companies that are already seeing the economic benefits of investing in the former Soviet Union include Dutch brewer Heineken. Myers notes that "From a standing start 5 years ago, it now derives more beer sales from Russia, by volume, than from any other country. Nor does International Business Machines need to be convinced. IBM began assembling personal computers in what was then the Soviet Union in 1974.

"Russia is the next big emerging market. It has size, oil wealth and technology, and it will get organized to succeed ..."

Today, it employs 700 people, where its annual revenues have grown at a double-digit pace over the past five years, rolling up a 29% gain in 2005."

Despite its ongoing internal turmoil, Russia's recent performance has been stellar. Since its financial crisis in 1998, the Russian economy has grown nearly 6% annually, including 6.4% last year. According to Myers, it is the European Union's fifth-largest trading partner and the world's number one supplier of energy after OPEC. It has the 12th-largest economy in the world, and is paying off its international debt ahead of schedule.

Robert Kennedy, executive director of the William Davidson Institute at the Univ. of Michigan Business School, also says Russia is the next big emerging market. "They have a decent institutional infrastructure, fantastic natural resources, and growing linkages to Western Europe," he says.

"Corruption and the business culture are still big problems, but at some point in the next 15 years or so, Russia will have a 5-year growth spurt when everything comes together and they have 9% to 10% compounded growth."

With its population of 83.5 million people — more than Germany or France — Vietnam is emerging as another potentially powerful emerging market, economists say. Vietnam expects to attract $6 billion in foreign investment this year, up from $5.8 billion last year.

Many other emerging markets are promising. Economists cite Brazil and Mexico in Latin America, Malaysia and Singapore in Southeast Asia, and the Czech Republic, Hungary and Poland in Eastern Europe. But Russia and Vietnam, they suggest, are the two that right now you can't afford to overlook. AEI

KRAUSE HONORED FOR RUSSIAN VENTURE

John Deere isn't the only ag equipment manufacturer that has seen the potential for improved sales in the Russian market.

Krause Corp.'s new venture in Russia recently earned it an Export Achievement Certificate from the U.S. Department of Commerce. U.S. Rep. Jerry Moran, R-Hays, Kan., formally presented the certificate to officials on October 11. Krause, a shortline manufacturer of farm tillage equipment, is based in Hutchinson, Kan.

Krause began exporting farm tillage equipment to Russia this year after tapping the expertise of federal and state commerce offices. Krause is "a very good example" of a company that reached out to various resources for advice on developing its export operation, says A.J. Anderson, Wichita-based director of the U.S. Commercial Service with the U.S. Department of Commerce.

"The important thing," said Greg Call, an international trade representative with the Kansas Department of Commerce, "is that they followed through. They acted on the advice."

Krause, formerly known as Krause Plow Corp., employs about 160 workers. Foreign exports amount to about 5% of sales, but that market is growing while the domestic market has declined, company officials said.

To say the Russian market has been beneficial is an understatement, says Richard Brown, president and COO at Krause. The company does not go through a broker but works directly with a Russian agriculture dealer. A broker might have charged 10%, so Krause's approach helped it compete.