

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Ethanol Faces Future
- AGCO Posts NA Profit
- Industry on Obama

## The Credit Crunch's Impact on Farm Equipment Dealers

Following the credit crunch and the majors' raising their financing rates, *Ag Equipment Intelligence* conducted primary research with 61 U.S. dealers from October 22-29 to determine how farm equipment retailers were being affected.

According to the survey, 51% of the average dealer's financing needs are met by manufacturers and their credit partners. Next in importance were small local banks, which provide 19% of dealers' needs.

Dealers showed equal concern about their own and their customers' ability to access cost-effective financing (both citing "very concerned" levels around 40%). When it comes to "very concerned" and "concerned" responses, dealers showed more anxiety for their own

needs (87%) vs. farmers (84%).

**Credit Risk.** Dealers believe they and their customers are perceived by area banks as good credit risks based on their balance sheets and credit history. 44.9% say banks view dealers as "very attractive;" while 35.6% believe banks view farmers as "very attractive."

With unusually strong farm balance sheets, net farm income is forecast to increase 10.3% this year (double that of 2006), and debt-to-assets ratios are expected to fall to 9%. Many agree that ag is as good a risk as any in today's economy.

**Financing Difficulties & Delays.** Only 14% of dealers reported difficulties or delays in gaining cost-effective financing approval from local banks since the credit crunch began. But their customer is a bit of a differ-

ent story, as 27% reported that their farm customers have had problems. Several dealers indicated that financing was recently denied for farmers who would've had certain approval only 60 days earlier.

As AEI has watched this trend, it seems that credit is available, but there'll be additional hoops to jump through on machinery and land purchases. There will be more scrutiny of inventory on balance sheets, and questions about pricing strategies and the control of input costs.

**Order Cancellations, Short-Term Plans.** 43% of dealers say that the changes in terms and rates will impact their outlook for credit and ordering over the next 3 months. While one large multi-store dealer

*Continued on page 2*

## Farmtrac Courting Buyers, Seeks Resolution This Week

**Editor's Note:** *With little being said on the matter publicly, AEI asked Bob Benedetti, a Tarboro, N.C., reporter closely following the Farmtrac situation to update subscribers on the ongoing saga. Following is what Benedetti uncovered.*

After receiving offers from a foreign conglomerate and a U.S.-based firm, an Edgecombe County, N.C., judge may decide the future of tractor assembler Farmtrac North America on Nov. 17.

Operating under court-ordered receivership for more than 10 months, the outcome has remained in limbo; a Farmtrac skeleton crew shipped handfuls of parts but was largely dormant until recent offers by

LS Mtron of Seoul, South Korea, and Montana Tractors of Fayetteville, Ark., according to court documents dated Nov. 3. A confirmation hearing on Nov. 17 may bring finality.

LS Mtron, a subsidiary of multinational conglomerate LS Cable, tendered an offer of \$10 million in late October to obtain all of Farmtrac's "real and tangible property assets." Those include 17 acres of land occupied by storage and assembly facilities, plus business buildings and approximately 1,150 fully and partially assembled tractors. A team of LS Mtron officials visited the Tarboro facility in late summer and surveyed the 280-location Farmtrac dealer network.

LS Mtron is atop a long list of Farmtrac unsecured debtors, with losses of more than \$11 million for parts and tractors.

If approved, the bid will help offset Farmtrac's \$12 million in Asset-Based Loans (ABL) presently owed to third party financier Textron Financial Corp.

A second offer, by Montana Tractors for "personal property assets but not in real estate," is the most recent in a series of attempts to do business with Farmtrac. Montana leaders were rejected during 2006 and 2007 talks with Farmtrac parent company Escorts Inc. Both Montana and Farmtrac purchase and re-brand small tractors produced by LS Cable.

Court documents state that coun-

*Continued on page 3*

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reported the cancellation of 20 orders, the average dealer in the survey cancelled less than 1 manufacturer order, while farmers cancelled an average of 1.1 orders. Thankfully for most, the equipment shortages of the last year are paramount in most farmers' and dealers' minds, causing far fewer cancellations than might be expected had a surplus existed.

Discussions at the recent Farm Equipment Manufacturers Assn. and Farm Equipment Wholesalers Assn. annual convention in early November showed few cancellations of shortline equipment orders, although many shared that the phone literally stopped ringing for about 10 days during the middle of the situation.

**Tax Incentives of Some Help.** 77.6% of dealers say that advanced depreciation laws (IRS 179 and the new 5-year depreciation introduced in this fall's bailout plan) will be of some help in overcoming purchasing paralysis. Only 8.6% of dealers believe that these incentives will be "very effective."

**Sales Revenues Reforecast.** Back in September, dealers projected

## CRITICAL FACTORS WORTH WATCHING

- ✓ **Dealership consolidation.** Will dealers be less enthused about acquiring other stores in this environment due to the difficulty in arranging financing coupled with high multiple expectations after many good years? Or will the credit crunch force undercapitalized dealers into selling?
- ✓ **Who's Most Vulnerable?** Dealers and manufacturers with marginal balance sheets and without solid banking relationships are cause for worry right now.
- ✓ **Export Orders Showing Up at Home.** It seems that the credit situation and its impact on international markets has already eased the equipment shortage domestically. Some pieces are turning up at local dealerships months ahead of their promised dates as equipment previously destined for overseas shipment are being redirected to dealers with local needs.
- ✓ **Impact on Shortlines.** Several dealers shared they are considering, or will consider, shedding shortlines from their equipment lineup as a result of the credit situation. Manufacturers will need to work harder and more aggressively in gaining and retaining dealer distribution, including reducing prices to be consistent with the drop in steel costs, offering significant cash terms and in some cases, consignment orders.

a 3.25% increase in sales revenues for 2009. In late October, following the credit situation, those same dealers forecast a 2% decline in sales revenues for 2009.

**What Dealers Will Do.** Through the survey, dealers were asked what tactics and strategies they might employ to combat farmers' purchasing anxiety. Following are three themes that emerged from the write-in responses.

- Aggressively sell preventive maintenance programs for those paralyzed by purchasing decisions.
- Provide more sophisticated financial planning assistance, including an accountant-like approach to ROI, depreciation, productivity and tax factors.
- Dealers say that the good operations sell their way through times of anxiety and take market share from less aggressive dealers. **AEI**

## Bellota Expands Operations, Opens New U.S. Manufacturing & Warehousing Facility

Bellota Agrisolutions, the Spanish supplier of components for soil preparation and seeding machinery, is expanding its North American operations with the opening of a new 30,000 square foot U.S. facility in Milan, Ill., before year's end. The new facility will house 25,000 square feet of production space and 5,000 square feet of warehousing space to better serve the American market.

Bellota is a family owned company that supplies disc blades, seeding discs and coulters to many of the world's largest agricultural machinery

manufacturers as well as the agriculture aftermarket.

Due to the high demand of farm machinery and components in the agricultural market, Bellota decided to establish this new facility to support the growing needs of North American customers. "The U.S. is a strategic market for us, and the new Milan, Ill. facility allows us to better meet and exceed American standards," Eduardo Urrestarazu, commercial & marketing director for Bellota, told **AEI**. "The new facility allows Bellota Agrisolutions to demonstrate greater commitment to the

American market and brings us closer to the American OEM farmer and dealer."

The company says the new facility will substantially increase capacity in North America, reduce lead times and improve customer service levels. According to Urrestarazu, Bellota has grown 70% worldwide and 40% in the U.S. market over the last two years.

Celebrating its 100-year anniversary in 2008, Bellota is the largest tillage component supplier in the world, according to the company. At current exchange rates, annual revenue for the tillage group is \$76 million. **AEI**

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sel for Textron Financial filed an objection to the sale, but that LS Mtron would be awarded the sale if there were no competitive bids. Textron officials were unavailable for comment at press time.

Court-appointed receiver James C. Marrow is likely to OK the transaction,

having told Farmtrac retailers in April that his primary goal is “to gain the highest value in the liquidation of assets.”

The sale may offer little refuge to Farmtrac dealers across the U.S. and Canada, as interest mounts on overloaded lots full of units they attempt to wriggle free from.

A Louisiana-based retailer said the proposal would give “absolutely no consideration ... to Farmtrac dealers” and customers scammed by false discount programs.

Farmtrac sellers have not reported contact by LS Mtron officials regarding potential offers or programs. **AEI**

## Despite Slow Growth in North America, AGCO's Fendt Tractors Sold Out in Europe

With sales growing at a snail's pace and annual volumes still below 200 units, Fendt tractors remain a niche product in North America. But since European farmers are currently buying up every tractor the factory can build, that's not too much of a concern to managers at the AGCO business in southern Germany.

“Our sales in North America are mainly to European-style farmers in Canada and parts of the U.S. To do anything more would require very big marketing resources to compete with the likes of Deere and Case,” says Peter Paffen, head of sales and marketing in Europe. “The currency relationship is unhelpful at present and, in any case, we need all the tractors we can get to satisfy demand in Europe.”

Production figures emphasize how growing numbers of farmers and custom operators are prepared to buy into Fendt's “premium tractor” proposition.

Twelve years ago, output at the

Marktoberdorf factory topped 8,820 units. This year, the plant is scheduled to build 15,450 units with plans to make 20,000 units by 2012.

At just over \$1.4 billion last year, Fendt sales revenues from its Europe-oriented premium-priced products are

*“The currency relationship is unhelpful at present and we need all the tractors we can get to satisfy demand in Europe...”*

already closing in on AGCO's global “mass market” Massey Ferguson operation.

The tractor's build, performance and ultra low-speed capability are also taking Fendt into the industrial arena. A large road-building contractor in the Czech Republic is currently replacing

its Challenger tracked tractor fleet with Vario tractors — 40 so far — to work with trailed earth scrapers, dump trailers and soil-stabilizing machinery for a major freeway project crossing the country.

Positive claims for the tractor's fuel consumption, backed by independent test results, are also attractive in today's economic climate.

This is credited to a combination of latest-spec Deutz engines and Fendt's unique Vario CVT transmission. The dedicated assembly line for this hydro-mechanical unit, which goes into all but the vineyard/orchard models, is scheduled to build 15,500 units this year.

Around 3,000 units are destined for AGCO's Beauvais tractor plant in France for installation in Massey Ferguson Dyna-VT and Challenger TechStar tractors. It will also be used in Valtra's forthcoming replacement for the ‘S’ series heavy tractor. **AEI**

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

Mfr.	Symbol	11/11/08 Price	10/13/08 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$26.28	\$37.61	\$71.95	\$21.98	6.86	2.10 M	2.41 B
Alamo	ALG	\$11.41	\$16.44	\$26.46	\$10.78	7.03	56,584	112.34 M
Art's Way	ARTW	\$4.27	\$3.70	\$19.88	\$2.92	7.52	37,528	17.0 M
Caterpillar	CAT	\$36.88	\$49.48	\$85.96	\$31.95	6.07	10.2 M	22.24 B
CNH	CNH	\$16.32	\$19.14	\$70.00	\$11.12	4.69	454,932 M	3.87 B
Deere*	DE	\$35.12	\$42.45	\$94.89	\$28.50	7.28	7.2 M	15.0 B
Kubota	KUB	\$27.29	\$23.15	\$43.41	\$17.72	10.74	51,721	6.97 B
Titan Mach.**	TTTN	\$11.49	\$15.99	\$34.49	\$9.53	14.62	439,622	202.67 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.



## Bankruptcies & Launches: The Ethanol Industry in Flux

On October 31, VeraSun Energy Corp., one of the nation's largest ethanol producers, announced that it had filed for chapter 11 bankruptcy while it reorganizes. On November 4, Cardinal Ethanol LLC launched its \$150 million facility to produce ethanol and became the twelfth biorefinery in Indiana. In September, Poet, the largest private ethanol producer in the U.S., forecast a "significant consolidation" in the industry.

So, is the industry expanding or contracting?

Ann Duignan, analyst for JP Morgan, reports that she visited with Denny DeVos, director of corporate finance of Poet, and in a note to investors, she said that Poet "continues to deliver about twice the industry average profit as it has more efficient operations and manages risk very carefully."

"Management expects more consolidation as suppliers who did not anticipate the working capital needs of their businesses in the current environment will likely continue to be under pressure in the near-to-mid term. Poet, on the other hand, expects to continue to expand, primarily through acquisitions after its current Greenfield locations are completed," she says.

### Reviewing the Fundamentals.

Following Verasun's bankruptcy filing, Duignan said that the company cited corn hedges that left it with high-priced corn obligations at a time when prices were declining. Verasun says that its 15 plants and 1.4-billion gallon per year capacity will continue to operate.

"For the first time since late 2005 when supply was an issue, the ethanol market is trading at about \$0.25 above the price of wholesale gasoline, making it less attractive for blenders to blend more than required," Duignan says, pointing out that it was trading at \$1.14 below gasoline in August.

In addition, blenders' credit will

fall to \$0.45 in January. The likely conclusion is that demand for ethanol — at least discretionary blending — is likely to slow moving into 2009. However, the mandate for ethanol rises in 2009 to 10.5 billion gallons per year from 9 billion in 2008, likely resulting in blender margin squeeze, according to Duignan.

She adds that producers are barely profitable. "Our analysis suggests that at current ethanol and corn prices, producers' variable margin is only about 5%, vs. 9% last month. Lower oil prices will likely put downward pressure on ethanol prices as well as blender discretionary demand. The USDA's forecast for corn usage for ethanol for 2008-09 of 4 billion bushels may be too high. We get 3.87 billion bushels."

She believes that the pace of new facility expansion will fall precipitously into 2009 and beyond. "As a result, despite the growing ethanol mandate, it is conceivable that production will peak at its current capacity levels and that corn demand for ethanol will peak in 2009 — at 4 billion bushels rather than the 5.5 billion bushels needed to meet the 2015 mandate of 15 billion gallons," she says.

### Cane Ethanol Coming.

Meanwhile, it looks as if ethanol made from sugar cane will start making waves in the U.S.

Louisiana Green Fuels (LGF), an international investment group, says it is on schedule to open up the first commercial sucrose-to-ethanol plant in America. LGF, which is 80% owned by Inverandino, a Colombian business group, and 20% by the Lake Charles Cane Cooperative, plans to have four ethanol plants and three sugar mills in operation in Louisiana in the next 10 years, pumping out 100 million gallons of sugar-based ethanol a year.

Sugar is far more efficient in

terms of ethanol production, yielding an 8-fold return on the fossil energy used to make it while corn only yields 1.3 times the fossil energy used.

The state of Louisiana sold LGF one of its mills in September 2007 and in May issued \$133 million in industrial development revenue bonds via the Louisiana Public Facilities Authority — \$100 million of which is tax-exempt.

LGF says it will use molasses from sugar cane and newly planted sweet sorghum for feedstock and have a capacity of 22 million gallons/year. It plans to buy much of the sugar cane and sweet sorghum locally, but will import high-test molasses, refined sugar and common molasses, likely from the Caribbean, as needed.

The Louisiana Dept. of Natural Resources reports that the state has 12 biofuel plants planned, under construction or currently operating.

### AGCO Adds Cane Equipment.

Reinforcing the assertion that sugar cane is ready to compete with corn in producing ethanol, AGCO is working on a plan to enter the sugar cane harvester market as part of a strategy to increase revenue for harvesting machinery.

Basic design work for a cane harvester has been completed following consultation with large sugar cane mills in South America. A prototype should be running in Brazil this year, with a commercial launch likely 3-5 years away. Impetus for the new development is the growing role of cane for biofuel and greater investment in mechanized harvesting among sugar producers.

Brazil is the biggest market, but cane production is expanding throughout Asia and Africa. India and South Africa are actively looking to switch from hand cutting to mechanized harvesting.

Key competitors for AGCO will be Case IH, which entered the cane harvester market by acquiring the Australian manufacturer Austoft, and Deere, which bought the U.S. manufacturer Cameco Industries in 1998. Both harvester lines are assembled in Brazil — although Deere also builds the machines in Louisiana — and it seems likely that AGCO will locate its new line at one of four assembly facilities it operates in the South America. **AEI**

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## Some See New Administration as Farm Friendly, But Dealers are Leery

President-elect Barack Obama is being called "ag friendly" by a number of industry executives, but dealers surveyed by *Ag Equipment Intelligence* aren't convinced that his administration will have a positive impact on farming in the U.S.

While farm policy didn't get much attention during the presidential campaign, President-elect Obama's position on taxes, energy and health care did, and it's these that are scaring farm equipment dealers.

**Immediate Impact.** More than 200 dealers responded to *AEI's* email poll conducted on November 6 and 7. More than half believe the Obama Administration will produce a negative impact when it comes to sales of farm equipment.

Of those responding to the survey 54.2% say that the election of Obama as U.S. president will have a detrimental effect on their dealership's sales in 2009.

Nearly 40% (39.8%) believe that his election will have no immediate impact and only 6% say that the selection of Obama will be positive for farm equipment sales in 2009.

**Long-Term Effects.** Over the 4-year course of his administration, even more equipment dealers believe that his tax and social programs will hurt their equipment sales.

While Obama's "positive" rating over the long-term doubled to 12%, an overwhelming majority — 72% — of farm equipment dealers say that his policies will ultimately end up hurting their sales. The remaining 12.5% believe he will have little or no long-term effect on the farm equipment industry.

**Taxes & Social Programs.** Dealers most often cited increasing taxes, the expected repeal of the Section 179 accelerated depreciation schedules and higher costs for employee health care as reasons why they expect their business fortunes to diminish during Obama's presidency.

"Changes in tax codes will ultimately have the biggest effect on equipment sales," says Rick Radon of Oxbo International Corp., Kingsburg, Calif.

"Estate taxes and capital gain taxes will double or triple," adds James Faivre

of Faivre Implement, Stevens Point, Wis. "Other incentives, such as accelerated depreciation schedules, will be eliminated as well as Section 179."

"Of major concern is the continuation of Section 179 depreciation because both traditional and non-traditional farmers often make purchasing decisions based on tax implications," says James Taylor of Hillsboro Equipment Inc., Hillsboro, Wis.

**Status of Ethanol.** Taylor adds, "Of lesser concern is the continuation of a 50 cent ethanol subsidy. If the subsidy stays, ethanol stays viable."

During the presidential race, Obama indicated that he favors federal support for ethanol as a base to grow from.

Several farm equipment dealers indicated that they see much positive in the President-elect's position on biofuels. "If Obama pushes biofuels as he says, it could have a positive effect," say John Fronk of Golden Spike Equipment, Tremonton, Utah.

"As soon as we get over this negative frame of mind we'll get back to normal," says Rick Lineburg of Vincennes Tractor, Vincennes, Ind. "It won't be as good as it was 6 months ago, but it'll be better than it is now."

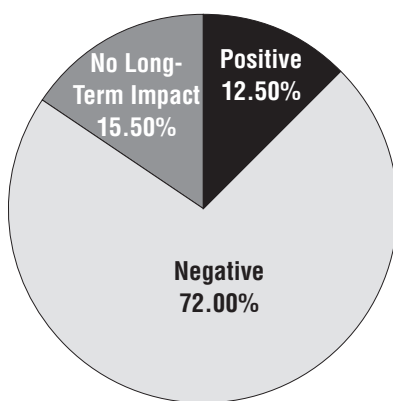
"I think we'll see more money directed to conservation and conservation tools in the next 4 years, as well as a very wide variety of energy solutions."

**Support for Farming.** Many industry observers say that the new Congress will work with Obama on ag and alternative-energy programs, but one publication warns that budget deficits could slash spending already approved in the 2008 \$307 billion Farm Bill. One Senate panel has already cut \$331 million from funds approved earlier for conservation in 2009.

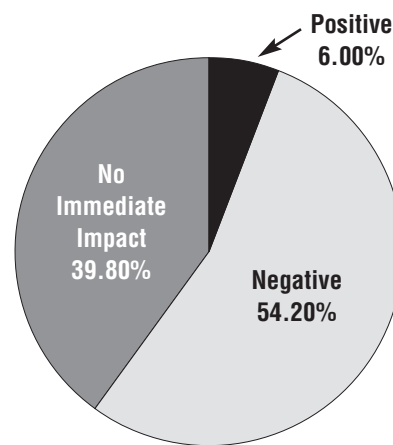
Obama is also on record in limiting USDA aid to \$250,000 a year for farmers. It's currently unlimited on some subsidies.

**AEI**

**IMPACT OF NEW  
ADMINISTRATION ON  
DEALER EQUIPMENT  
SALES IN NEXT FOUR  
YEARS**



**IMPACT OF NEW  
ADMINISTRATION ON  
DEALER EQUIPMENT  
SALES IN 2009**



### Kubota Second Half Earnings Fall by 17%

Kubota Corp., the manufacturer of farm and construction machinery based in Osaka, Japan, reported on November 7 that its earnings during the second half of fiscal 2008, which ended on September 30, fell by 17%, while sales rose by 2%. The company said the earnings were affected by a strong yen and higher material costs.

At current exchange rates, Kubota earned a lower \$360.7 million during the 6-month period. This compares with gains a year-ago of \$434.3 million.

Kubota said that sales of tractors increased overseas but fell in North America due to the weak housing market.

**AEI**

## AGCO May Be Turning Corner, Posts First NA Profit Since 2006

Global demand for farm equipment continues to drive much of AGCO's improving sales, with an operating profit of \$4.7 million in North America. The company, which posted its third quarter results on October 29, saw its first profitable quarter in the region since the second quarter of 2006.

Unlike other major equipment manufacturers that have seen corporate earnings dragged down by poor construction sales, AGCO, which solely relies on the agricultural industry, saw its net sales in the third quarter rise by 29%. Net sales rose to \$2.1 billion for the quarter, compared to \$1.6 billion for the same period in 2007. Net income also increased to \$1 billion.

Net sales for the first 9 months of 2008 increased 34.6% to \$6.3 billion, compared with \$4.7 billion in sales during the same period in 2007. Net income through the first 3 quarters of the year came in at \$298 million vs. \$165 million through the first 9 months of '07.

**NA Trends Steady.** "AGCO delivered a 6.8% operating margin and reported a profit of \$4.7 million in North America," says Ann Duignan, machinery analyst for JP Morgan. "Management expects to maintain this 'trend' through cost reductions and new product introductions. The [current] foreign exchange should also help."

In North America, AGCO reported

margins of 1.1% in the third quarter vs. its prior peak of 3.3%. Duignan believes margins in North America will revert to prior cycle levels.

"Management believes that it can at least get back to this level, if not exceed prior cycle margins, as a result of higher volume, better mix and improved distribution," she says.

AGCO's unit retail sales of tractors were down in the first 9 months of the year "due to decreases in tractor sales under 100 horsepower, partially offset by strong growth of tractors over 100 horsepower. Sales of combines were up compared to the same period in 2007."

**A Clean Beat.** With improved earnings of \$1.04 per share, AGCO's third-quarter results beat Wall Street expectations of \$0.78. The company's operating margin fueled the beat, according to Barry Bannister of Stifel Nicolaus & Co.

"Because we knew production growth would slow, we thought year-

over-year margins would fall in the third quarter," Bannister noted in a report to investors. While production in the period was up only 11% vs. 19-25% in the first half of '08, margins held up as North America, which represents 21% of AGCO sales, finally produced a profit of 1.1% vs. -3.1% "on pricing traction and perhaps less currency headwind," says Bannister. Just as critical, he notes, solid Europe/Africa/Middle-East margins offset weaker sales in South America. Asia/Pacific continued to bounce back from drought and other factors.

While stock values of all of the major farm equipment makers have experienced dramatic declines in recent months, Bannister sees continued improvement at AGCO. "Strong results at a delicate time should be greeted well by investors, and comments about pricing traction and EAME results should benefit peer companies such as Deere & Co.," he says.

**Strong Order Boards.** Despite the turmoil in the U.S. economy, agricultural fundamentals remain solid. AGCO continues to report a strong order board through the remainder of the year and into 2009.

While noting a slowing North American economy that may impact compact and utility tractor sales, AGCO expects strong farm income and balance sheets will drive sales of large tractors and combines. The company also expects South American demand to remain strong given favorable fundamentals in Brazil and Argentina. Growth in Western Europe is expected to be "modest."

**AEI**

### AGCO EARNINGS MODEL (\$ Millions except per share)

Sales (Geographic)	2007	1Q08	2Q08	3Q08	4Q08E	2008E	1Q09E	2009E
North America	1,488.1	367.7	465.7	440.4	540.7	1,814.5	441.2	2,177.4
South America	1,090.6	321.4	381.1	466.6	391.5	1,560.6	340.7	1,654.2
EAME	4,067.1	1,045.0	1,484.8	1,108.8	1,495.7	5,143.8	1,129.1	5,545.6
East Asia/Pacific	182.3	52.0	63.8	69.6	67.1	252.5	59.8	290.4
<b>Operating Profit (Income)</b>								
North America	(35.7)	(13.0)	(1.3)	4.7	8.7	(0.9)	10.0	63.1
South America	101.3	34.4	36.5	41.0	25.2	137.1	26.4	119.1
EAME	398.0	97.4	175.4	110.8	141.0	524.6	106.4	591.9

Source: Stifel Nicolaus & Co.

#### Where Dealers Are Doing Well...

- 1.44 current ratio (industry benchmark 2.0-1.0)
- 19.32% pretax return on equity (industry benchmark 20%)
- 2.28 total debt-to-equity (industry benchmark 3.3 or less)
- 2.67 inventory turns (industry benchmark 2.5-3.0 times)
- 30.22% sales productivity (industry benchmark 35% or less)
- 23.54% parts productivity (industry benchmark 33% or less)

#### Where Dealers are Underperforming...

- 3.78% pre-tax return on assets (industry benchmark 6%)
- 5.63% of assets are cash (industry benchmark 7-10%)
- 75.32% of assets are inventory (industry benchmark 65% or less)
- 62.53% aftermarket absorption rates (industry benchmark 80%-plus)

Source: 2007 Annual Cost of Doing Business Study,  
prepared by the SouthWestern Association

## Large Equipment Sales Remain 'Generally Healthy'

Retail sales of large agricultural machinery remained "generally healthy" in October, according to Robert McCarthy, analyst for R.W. Baird. Row crop tractor sales increased by 19% year-to-year, and combine sales increased by 28%, according to figures from the Assn. of Equipment Manufacturers. Dealer inventories continue to decline from their historically low level.

- The 19% increase of row crop tractors vs. October of last year follows a 60% increase in September. Row crop tractors are up 40% in the last 3-month period. October historically contributes nearly 14% of annual sales on average, second only to September.

- Combine retail sales increased 38% year-to-year after an equally sharp jump in September. October is the last of a series of seasonally important months for combine sales, contributing an average of nearly 12% of annual sales over the past 5 years.

- Retail sales of 4WD tractors declined 9% in October, after a 102% increase in September. Despite the recent drop, 4WD tractor sales remain up 38% for the quarter. October is the most important month of the year seasonally for 4WD tractor sales, contributing an average of nearly 17% of annual sales over the last 5 years.

- Dealer inventories of large tractors continued to decline year-to-year on an absolute basis and were reported to be down significantly on a days-sales basis in September.

- The sharpest decline in inventory came from 4WD tractors as levels fell 16% year-to-year on an absolute basis, and fell to 62 days-sales versus 102 year-to-year. This was followed by row crop inventories, which were down 4% on an absolute scale and fell 33 days-sales, down to 80 from an expected 113 the previous year.

- Combine inventories remained comparatively flat on an absolute basis, but were reported down 11 days-sales, to 63 vs. an expected 74 the previous year.



### OCTOBER U.S. UNIT RETAIL SALES



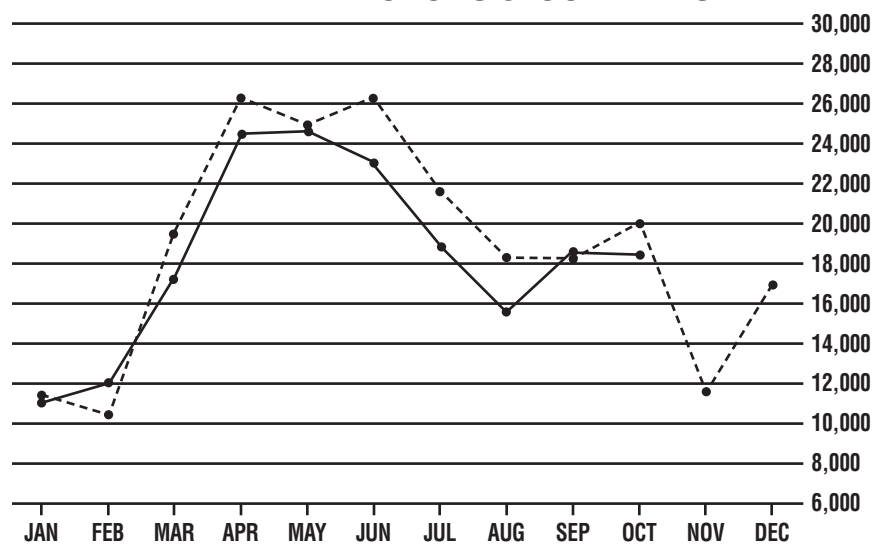
Equipment	October 2008	October 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Oct. 2008 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	7,531	9,378	-19.7	89,915	103,837	-13.4	56,886
40-100 HP	6,199	7,079	-12.4	59,876	67,863	-11.8	33,828
100 HP Plus	3,123	2,619	+19.2	22,446	17,134	+31.0	5,632
<b>Total-2WD</b>	<b>16,853</b>	<b>19,076</b>	<b>-11.7</b>	<b>172,273</b>	<b>188,834</b>	<b>-8.8</b>	<b>96,346</b>
<b>Total-4WD</b>	<b>665</b>	<b>679</b>	<b>-2.1</b>	<b>3,800</b>	<b>3,091</b>	<b>+22.9</b>	<b>751</b>
<b>Total Tractors</b>	<b>17,518</b>	<b>19,755</b>	<b>-11.3</b>	<b>176,037</b>	<b>191,925</b>	<b>-8.3</b>	<b>97,097</b>
<b>SP Combines</b>	<b>984</b>	<b>672</b>	<b>+46.4</b>	<b>7,107</b>	<b>5,819</b>	<b>+22.1</b>	<b>1,394</b>

### OCTOBER CANADIAN UNIT RETAIL SALES



Equipment	October 2008	October 2007	Percent Change	YTD 2008	YTD 2007	Percent Change	Oct. 2008 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	1,553	1262	+23.1	12512	10039	+24.6	6509
40-100 HP	1354	1183	+14.5	7361	5981	+23.1	3707
100 HP Plus	674	579	+16.4	3985	3239	+23.0	1351
<b>Total-2WD</b>	<b>3581</b>	<b>3024</b>	<b>+18.4</b>	<b>23858</b>	<b>19259</b>	<b>+23.9</b>	<b>11567</b>
<b>Total-4WD</b>	<b>73</b>	<b>129</b>	<b>-43.4</b>	<b>948</b>	<b>625</b>	<b>+51.7</b>	<b>114</b>
<b>Total Tractors</b>	<b>3654</b>	<b>3153</b>	<b>+15.9</b>	<b>24806</b>	<b>19884</b>	<b>+24.8</b>	<b>11681</b>
<b>SP Combines</b>	<b>209</b>	<b>195</b>	<b>+7.2</b>	<b>1966</b>	<b>1359</b>	<b>+44.7</b>	<b>239</b>

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



—Assn. of Equipment Manufacturers



## Ag Sales, Financial Services Help CNH Beat Forecast in 3Q

Buoyed by sales of large equipment and a better-than-expected performance of its financial services business, CNH, manufacturer of Case IH and New Holland ag and construction equipment posted "decent" results for its third quarter of the year. The company is forecasting that strong farm equipment sales through the remainder of 2008 and into '09 will offset the weakness in the construction sector.

According to CNH, which released its quarterly report on October 22, the continued robust agricultural industry demand and market share gains drove its net sales of equipment up 22% to \$4.3 billion in the third quarter. Sales growth, product mix improvements, pricing actions and a positive exchange rate produced an 18% increase in gross profit during the period. The gross margin on ag equipment also improved as pricing actions offset higher input costs, primarily plate steel and tires.

Through the first 9 months of 2008, CNH's gross profit increased \$459 million compared with 2007, including positive net price recovery of \$68 million. While CNH Ag saw gross profit improve by \$548 million compared with 2007 levels, CNH Construction Equipment's gross profit declined by \$89 million.

At the same time, Henry Kirn of

### CNH NET SALES OF EQUIPMENT (Unaudited, USD in millions, except percents)

	Quarter Ended		Percent	Quarter Ended		Percent
	9/30/08	9/30/07	Change	9/30/08	9/30/07	Change
Agricultural Equipment	\$3,171	\$2,299	37.9%	\$9,935	\$7,205	37.9%
Construction Equipment	\$1,155	\$1,258	(8.2)%	\$3,769	\$3,689	2.2%
Total Net Sales of Equipment	\$4,326	\$3,557	21.6%	\$13,704	\$10,894	25.8%
<b>Equipment Operations</b>						
Gross Profit	\$816	\$689	18.4%	\$2,580	\$2,121	21.6%
Gross Margin	18.9%	19.4%	(0.5) pts	18.8%	19.5%	(0.7) pts

UBS, in a note to investors, points out that the year-over-year operating margin on equipment declined 60 basis points to 7.8%. This resulted from a 630 basis point drop in construction equipment sales, which more than offset a 180 basis point gain from the agricultural sector.

**Beat the Street.** CNH reported earnings per share before restructuring of \$1.09 vs. a consensus of \$0.79. According to Ann Duignan of JP Morgan, the beat was driven by pricing and operational actions, which more than offset higher input costs. "The majority of the beat vs. our expectations (\$0.81) came from a lower tax rate and a better-than-expected financial services profits."

**Strong World Demand.** Buoyed by high cash grain prices — "although

off their peak in recent months" — CNH expects the demand for farm equipment to remain strong in both North America and the world through the remainder of 2008.

With corn and wheat stock-to-use ratios at historically low levels, record levels of U.S. net farm cash income and accelerated depreciation benefits, CNH sees continued growth of higher horsepower agricultural tractor and combine markets throughout the world.

"Management expects strong demand into 2009 and is building inventory in preparation, particularly for the CIS, where large orders have already been placed," Duignan says. "The 2009 order board for U.S. 'early-order combines' is above that of a year ago and no cancellations have occurred as of yet."

**AEI**

## Ag Wheel Maker Sparco Abandons NA Plans

One of Europe's leading distributors of agricultural wheel and tire assemblies has abandoned plans to enter North America citing market conditions as "not suitable" at this time.

The Denmark-based Starco group has grown into one of Europe's largest specialist distributors, supplying own-brand and third-party agricultural and industrial tires to OEMs and aftermarket dealers. It also produces steel rims to supply complete wheel assemblies for agricultural implements and trailers.

"Starco did plan to establish a division in America earlier this year but we discovered that market conditions there are not suitable for our core product at the moment," says

marketing assistant Sharon Wilkins on behalf of CEO Peer Ejlersgaard. "Initial market research and actual market conditions presented conflicting results. At present, we have no plans to start another venture in America."

With sales forecast to reach the equivalent of \$178 million this year, up from \$159 million in 2007 and \$101 million the year before at current exchange rates, Starco has grown into a major supplier with pan-European reach.

In recent years, its network of sales companies has expanded into eastern and central Europe, where it now manufactures after transferring production of steel rims for agricul-

tural trailers and implements from Great Britain to Croatia in 2005. Last year, Starco secured a distribution agreement with India's BKT to distribute tires in the former Soviet Union.

Also in 2007, Starco acquired a 20% share in Gebrüder Schaad, the Swiss manufacturer of dual wheel systems, with an option to raise its stake to 40% within 3 years.

Schaad's specialist operation complements Starco's standard OEM and after-market offerings; it produces dual rims and attachment systems for all tractor power ratings and also the Clic Duals system for ATVs distributed in North America by Dual Concepts Inc., Ankeny, Iowa.

**AEI**