

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- Europe Bounces Back
- Ag-Chem Top Sprayer
- Titan Goes Public

## FORECAST 2008

### Ethanol, Exports Will Fuel Improved Equipment Sales in New Year

Don't let the negative press reports about the downward pressure on ethanol prices, a potential glut of supply and uncertain demand fool you about the potential for corn ethanol in 2008. Despite the apparent overproduction situation going into the new year, demand forecasts remain strong for corn ethanol through 2008.

Along with increasing exports of agricultural commodities, improved farm commodity pricing and record levels of farm net income all point to a significant improvement in farm equipment sales in the coming year.

#### ETHANOL OUTLOOK

Ann Duignan, machinery analyst for Bear Stearns & Co., recently did a comprehensive study of the ethanol industry and offered her analysis in a report to investors.

**2007 Energy Bill.** On December

6, the House passed the Energy Independence and Security Act. This bill establishes a new Renewable Fuel Standard (RFS) mandate of 36 billion gallons per year (BGY) of

***"The 2007 Energy Bill will continue to spur demand for ethanol, which is critical to improving producer margins..."***

ethanol by 2022 (vs. 7.5 BGY by 2012). Ethanol production will likely remain ahead of the new mandate in 2008 and '09 given the 6.2 BGY under construction. Regardless, the

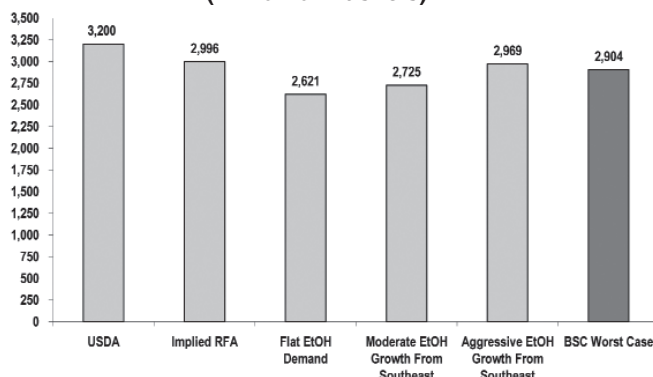
bill will continue to spur demand — critical to improving producer margins. We believe there is a high likelihood this measure will become law as there is broad support from both sides of Congress and the White House for an RFS mandate.

**Ethanol Prices Improve.** The average ethanol and wholesale gas prices remained depressed in November at \$1.94 and \$2.48, respectively, as supply continues to grow faster than demand. Throughout the month, ethanol prices improved and ended at \$2.02 vs. \$2.26, respectively, as of November 30 with a spread of -\$0.24 vs. -\$0.61 in October. The industry produced 555 million gallons in September and grew +32% year-to-year, while demand grew +11% year-to-year to 530 million gallons. There currently are 134 plants with 7.2 BGY of capacity.

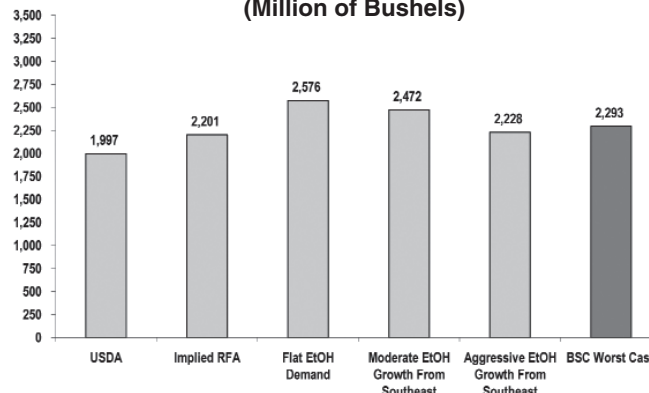
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### SCENARIOS FOR CORN-ETHANOL USE VS. ENDING STOCKS

**Corn Used For Ethanol Scenarios For '07/08  
(Million of Bushels)**



**Corn Ending Stock  
(Million of Bushels)**



**Even under Bear Stearns Co.'s worst-case scenario where 2.9 billion bushels of corn is used for ethanol this would result in 2.3 billion bushels in ending stocks. They expect little downside risk to USDA's 3.2 billion bushel forecast for ethanol as the Southeast provides a new demand outlet. (EtOH – ethyl alcohol; RFA – Renewable Fuel Assn.)**

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### Improved Margin Economics.

Our analysis suggests that at current ethanol and corn prices, producer variable margin is ~18% (vs. ~11% in October). Ethanol prices would have to fall to about \$1.58/gal to breakeven.

With about ~259 million gallons coming on stream each month over the next 2 years, producers are still at risk of breakeven — in spite of the Southeast opening up. However, blenders are likely to ship as much ethanol to the Southeast as possible, alleviating some near-term risk.

**Minimal Risk to USDA's Forecast.** With the Southeast likely providing a new demand outlet, there is limited downside risk to the USDA's ethanol forecast of 3.2 billion bushels for the 2007-08 marketing year.

Although the ethanol price outlook is weak, producers will likely continue operating their facilities until they reach ~700 million gallons per month. At that level — which we believe is a worst case scenario — we still anticipate a strong demand for corn in the 2007-08 marketing year.

### EXPORTS RISING

In its December World Agricultural Supply and Demand Estimates report, the USDA pointed toward strong worldwide demand

and U.S. exports as the main drivers in its revised estimates for lower ending stocks and higher prices for farm commodities in 2007-08.

In its forecast, USDA raised 2007-08 price forecasts for corn, soybeans and wheat. It raised its corn price forecast to \$3.65 per bushel, (was \$3.50 per bushel), its soybean price forecast to \$9.75 per bushel (was \$9.00 per bushel) and its wheat price forecast to \$6.40 per bushel (was \$6.10 per bushel).

**Corn Exports Up.** In its most recent revision, USDA lowered corn-ending stocks by 5% to 1.797 billion bushels compared to last month's estimate. The 100 million bushel reduction of the USDA's 2007-08 forecast was driven by a higher forecast for exports, which was up 100 million bushels.

The agency continues to expect a 34% decline in inventories as a result of the 2006 crop. The USDA maintained its estimate of corn yields at 153 bushels per acre and maintained its estimate of planted and harvested acreage at 93.6 million acres and 86.1 million acres, respectively.

As a result, it maintained its production estimate for the 2007-08 of 13.168 billion bushels.

The 2007 corn crop is still expected to be a record crop, exceeding the

bumper crop of 2004 which produced 11.807 billion bushels.

**Soybean Exports Up.** The USDA raised its forecast of soybean exports for the 2007-08 crop by 20 million bushels (2%) to 995 million bushels, driven by "stronger than expected sales to China." The agency maintained its forecast of 2006-07 ending stocks — 2007-08 beginning stocks — at 573 million bushels and continues to expect a 28% increase in inventories as a result of the 2006 crop.

USDA maintained its estimate of soybean yields at 41.3 bushels per acre as well as its estimates of planted and harvested acreage at 63.7 million acres and 62.8 million acres, respectively. As a result, USDA maintained its production estimate of 2.594 billion bushels.

**Wheat Exports Up.** The U.S. farm agency also raised its forecast of wheat exports for 2007-08 by 25 million bushels (2%) to 1.175 billion bushels, noting, "increased foreign imports and reduced supplies and exports for key competitor countries." USDA maintained its forecast of 2006-07 ending stocks at 456 million bushels and continues to expect a 20% decline in inventories as a result of the 2006 crop.

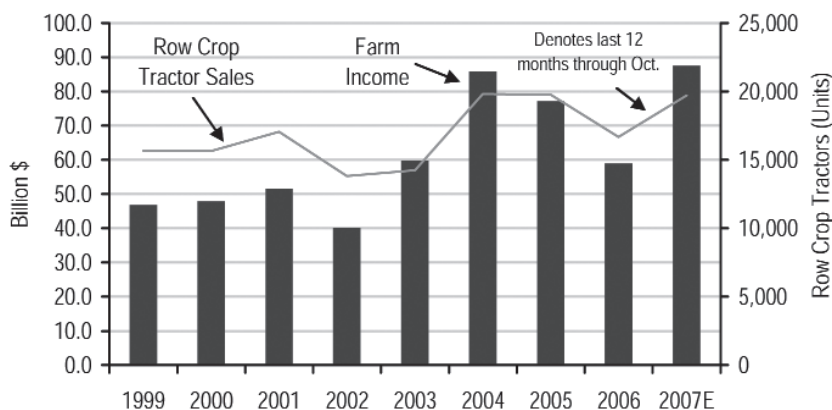
It also maintained its estimate of wheat yields at 40.5 bushels per acre. Accordingly, the agency held to its production estimate of 2.067 billion bushels.

The USDA also indicated that global wheat ending stocks could be the lowest since 1975-76, noting "Global wheat production in 2007 is projected to lag behind world demand due to a U.S. freeze and heavy rains in the Plains, Canadian planting delays and hot summer, Australian drought, EU-27 rains in the West and drought in the East, and Ukraine/Russia drought."

### FARM INCOME

The rising demand from ethanol and exports is pushing up projections for farm income, which in turns improves prospects for increased farm

### U.S. NET FARM INCOME & ROW-CROP TRACTOR SALES



**Between 1999 and 2007, sales of row-crop tractors have tracked very closely with net farm income, making prospects for 2008 sales outstanding.**

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machinery sales during 2008. In its November 29 report, the USDA noted “The boost in 2007 U.S. farm income is primarily the result of high commodity price. The higher prices available to U.S. farmers are principally resulting from strong demand from the domestic biofuels industry and from foreign buyers.”

UBS analyst David Bleustein notes in his November 30 report that “The USDA raised its forecast of 2007 net farm income to \$87.5 billion — a record level — up slightly from its prior estimate of \$87.1 billion. The revised net farm income forecast remains 48% above 2006 and is 52% above the 10-year average.”

Overall, the USDA increased its 2007 crop cash receipts forecast by 5% from its August 30 forecast, with 2007 crop receipts now expected to increase 19% from 2006. The agency lowered its forecast for 2007 livestock cash receipts to \$139.6 billion (from \$140.2 billion), but still expects a 17% increase.

**Total Cash Receipts.** For 2007, USDA’s revised forecast of total cash receipts is \$282.2 billion, up 2% from its August 30 forecast of \$276.4 billion, and up 18% from 2006 cash receipts of \$239.3 billion.

**Cash Receipts from Crops.** USDA’s revised forecast of cash receipts from crops for 2007 is \$142.6 billion, up 5% from its August 30 forecast of \$136.2 billion.

**Cash Receipts from Livestock.** The farm agency revised its forecast for 2007 cash receipts from livestock to \$139.6 billion, down slightly from its August 30 forecast of \$140.2 billion (17% above 2006 levels, and 32%

above the 1997-2006 average). The USDA noted, “Dairy producers’ cash receipts in 2007 are forecast to be the highest on record.”

#### **Direct Government Payments.**

The revised forecast of direct government payments to farmers is \$12.1 billion in 2007, down 11% from USDA’s August 30 forecast of \$13.6 billion.

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### ***“Global ag fundamentals suggest another strong year of farm equipment sales in 2008...”***

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Expected payments in 2007 are now 23% below 2006 levels, and 28% below the 1997-2006 average.

USDA attributed the decline in direct government payments primarily to lower countercyclical payments and a decline in marketing loan benefits.

**Cash Expenses.** For 2007, the USDA’s revised forecast of cash expenses is \$226.4 billion, up 2% from its August forecast of \$222.1 billion (11% above 2006 levels, and 27% above the 1997-2006 average). The agency noted that the (revised) year-over-year increase in cash expenses is primarily driven by higher expenditures of \$6.9 billion for feed, \$2.5 billion for fertilizer, \$1.6 billion for labor and \$1.5 billion for seed. The USDA attributed its increased feed expense forecast to a forecast 21% rise in feed prices, due primarily to higher corn prices, and the rise in livestock output.

## **SUMMARY**

Based on growing demand for crops and improving farmer income, Bleustein sees a strong year ahead for farm equipment sales.

“Our expectation is that U.S. farm machinery sales will improve significantly in 2008, driven by elevated farm commodity prices in 2007, healthy farmer balance sheets and expected record levels of net farm income.”

Bank of America analyst Seth Weber adds, “Global ag fundamentals — rising farm income, relatively high crop prices, low crop inventories, and bio-fuel-related demand — all suggest another strong year of farm equipment sales in 2008. Large machines could be particularly strong.” **AEI**

### **SURVEY: MORE ACRES BACK TO CORN**

The fall rally for new crop prices of corn, soybeans and wheat is shifting the dynamics of the grain markets for 2008 — again — according to the latest research from *Farm Futures* magazine. With futures at or near record levels, and input prices surging, farmer planting intentions are again up in the air.

Based on a survey of farmers conducted in late November, *Farm Futures* now estimates producers are planning to plant 88 million acres of corn in 2008, along with 69.5 million acres of soybeans and 62.2 million acres of wheat.

By contrast, the magazine’s August survey put corn at 84.9 million acres, soybeans at 72.6 million and wheat at 59.8 million.

### **FARM MACHINERY TICKER (AS OF 12/12/2007)**

Mfr.	Symbol	12/12/07 Price	11/11/07 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AG	\$67.48	\$58.65	\$71.95	\$28.67	N/A	1.79 M	6.18 B
Alamo	ALG	\$19.65	\$19.09	\$28.37	\$16.77	19.13	20,733	192.49 M
Art’s Way	ARTW	\$38.00	\$20.50	\$26.78	\$6.19	37.90	31,816	75.16 M
Caterpillar	CAT	\$73.82	\$71.07	\$87.00	\$57.98	14.23	6.26 M	46.95 B
CNH	CNH	\$63.48	\$56.02	\$67.82	\$25.80	31.49	420,788	15.04 B
Deere	DE	\$87.90*	\$145.87	\$90.95	\$45.12	21.95	5.23 M	38.64 B
Kubota	KUB	\$36.92	\$38.64	\$53.83	\$34.39	14.20	54,536	9.51 B

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



## Agritechnica Discussions Present View into German Farm Equipment Landscape

With the support of the German Agricultural Society (DLG), AEI attended the Agritechnica show in mid-November in Hanover, Germany. The every-other-year show featured 2,247 exhibitors (39% increase since 2005) and 16 trade show halls covering 362,907 square yards of exhibit space. The 340,000 attendees represented a 30% increase and drew visitors from 81 nations.

As it did in 2005, AEI scheduled meetings with the both the VDMA (German agricultural machinery association) and HAG (Germany farm equipment dealer association). In general, it was clear the European farm economy is much improved from 2 years ago.

"It is absolutely a good time for the industry and the dealers," says Ulrich Beckschulte of HAG. "The domestic market is good to very good, and nearly everyone is very satisfied. Farmers have money and are reinvesting. Over the last several years, they only looked to maintain the equipment; this year they're buying new."

Gerd Wiesendorfer, market research, VDMA, confirmed the bullish outlook for ag machinery. "Real income is increasing, we have a boon in commodities (he believes that except for the possibility of a minor correction, all prices will remain high, including milk), and we've seen growth even in the saturated Western European machinery markets."

In a discussion on what has changed most since 2005, he recognized the increased size of machinery, but stressed the biggest change is the focus on bioenergy, though it has not meant much to the ag machinery business to date.

"Ag was not considered so interesting 2 years ago," he says. "Today, the mood is very good; ag is strong and influential again for both feeding the world and now for energy."

### MANUFACTURERS

— Gerd Wiesendorfer,  
market research, VDMA

**Industry Outlook.** After farmers' incomes grew 4% in 2006, more growth is forecast for 2007. In fact,

VDMA estimated that 2007 will result in 5-7% ag machinery sales growth in Western Europe, with Central and Eastern Europe showing 15% growth. In Germany, 2007 is expected to result in a sales increase of 12%, with another 5% forecast for 2008.

**Exports.** Germany is benefiting from the growth in Eastern Europe, as exports to the former CIS nations will amount to almost 20% of the total, a doubling over 3 years. Russia, Ukraine and Kazakhstan are among the biggest ag nations in the world, says Wiesendorfer. Germany's exports to these nations have doubled in 5 years, and 30% of total exports are now shipped east of Germany.

Russia is now the second most important export market, he says, up from 7th 5 years ago. "Germany was the first player to be in those markets

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*"Russia is now more  
important for German  
manufacturers than the  
U.S. market..."*

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and has a significant share of the imports there (40% vs. 16% by the next-closest nation, the U.S.)," he says.

Russia is now more important for German manufacturers than the U.S. "Over the last 2 years, the U.S. been decreasing in importance with more attention going to Eastern Europe," says Wiesendorfer.

**Consolidation.** Wiesendorfer believes consolidation among manufacturers is largely over for the time being. "During a recent assembly, AGCO's Martin Richenhagen fielded that question and said he doesn't see any development in consolidations. Firms are in good economic situations and there are few left that aren't profitable, which won't encourage mergers. Most are doing very well with a high demand for their products."

**Prospects for North American Manufacturers.** The climate is good for American manufacturers to do business in Europe with the exchange

rate, and Wiesendorfer expects little or no change over the next 2 years due to a number of economic and political factors. "The question is whether the technology will meet the demand. The level of technology is very high here. In general, demand is good for U.S. technology and its good reputation. The currency has made this much more affordable."

### DEALERS

— Ulrich Beckschulte, HAG

**Industry Makeup.** According to Beckschulte, Germany (about the size of Wisconsin) has about 3,900 service firms. However, in Germany there are about 800 "A" dealers (dealers with a prominent major tractor line) with the balance being "B" (smaller sub-dealers) operations. The "B" dealers typically have contracts with the larger "A" dealers for mainline equipment, says Beckschulte. It's also possible that a firm might be an "A" dealer for, say, SAME but a "B" dealer for Case IH, he says.

In U.S. dollars, the average German dealer does about \$1.9 million in sales revenue, and has 8.4 employees, far lower than their American counterparts. However, the German industry is fragmented with many small service firms that bring average numbers down. As a point of contrast, the average Deere dealership in Germany has 30-plus employees, while average employment industry-wide is 8.4.

**Dealer Purity.** Beckschulte confirmed that "dealer purity" is not a term unique to North America. With Deere also making the greatest push for "brand-pure" dealerships overseas, he added that "the dealers here in Germany will not accept it, nor will the French." He noted that six John Deere dealers in France terminated their contracts with Deere last year, opting instead to sell Valtra and McCormick tractors. Ten open points still exist in the French network, he says.

Interestingly, common-color dealers are now banding together, in a way that sounds like a union of dealerships, to protect their interests with the mainline. Through separate brand-specific sub-associations, for instance, Deere dealers meet regularly to dis-

cuss all things specific to their brand, including pressing issues with warranty, parts, financing, marketing and, of course, purity. Beckschulte says these groups are gaining strength in Germany and he and CLIMMAR (the federation of European dealer associations) is encouraging their formation throughout Europe.

**Used Machinery.** One of the most exciting areas of revenue growth for German dealers is the used machinery demand in Eastern Europe (specifically Poland, Russia, Romania, Hungary, Kazakhstan and Ukraine).

According to Beckschulte, this opened up a new world for obsolete and antiquated machinery that might have been scrapped a few years ago. In fact, the demand is so strong that dealers themselves exhibited in a dedicated hall at the show to promote used equipment to international attendees. Other exhibitors offering transportation, price guides and financial lending were also present so farmers could arrange for all aspects of the deal on-site.

**New Opportunities.** Beckschulte is encouraging dealers to find and prof-

it from the opportunity that comes in alternative fuels. "This is a chance to gain new equipment markets to service. The leaders in these fields are decentralized, the work is always done in rural areas. Our dealers offer the logistics of spare parts, and will go out to them on a service call on Easter morning — we are best equipped to do the service.

"There are engines needed for bioenergy production and other types of equipment supporting biomass further up the line. New firms are evolving to service the machines." **AEI**

## Excel Industries Acquires Hardi Sprayers

Exel Industries, the French manufacturer of Berthoud and Tecnomat crop sprayers, has snapped up its biggest rival in world markets, Hardi International.

The specialist manufacturer, headquartered in Denmark, has some 1,000 employees working for the parent company and 9 branches including Hardi North America in Davenport, Iowa and Visalia, Calif., and Hardi Inc. in London, Ontario.

Exel will pay Auriga Industries the equivalent of \$57 million for a 100% shareholding, which values the Hardi enterprise at \$146.5 million. The acquisition almost doubles Exel group's revenues from crop sprayer sales.

"It is with great pleasure that we welcome Hardi, this strong brand of agricultural sprayers into our family-owned group of dynamic and sometimes competing companies," says Patrick Ballu, Exel Group chairman & CEO.

"In light of their very similar operations, Hardi and Exel represent a strong potential for technological, geographic, commercial and industrial synergies."

Auriga Industries has succeeded in selling Hardi 10 years after acquiring it as an operation complementary to Cheminova, the group's core crop chemical business.

During its tenure, says Auriga, Hardi has benefited from considerable strategic streamlining and is well geared for future growth and development. The sale was prompted by a need to focus totally on Auriga's core businesses.

For Exel, acquiring Hardi represents the largest external growth initiative in its history.

In the 1980s, Exel Industries brought into one fold two of France's market-leading crop sprayer company, Berthoud and Tecnomat, along with a handful of smaller enterprises operating in the same field.

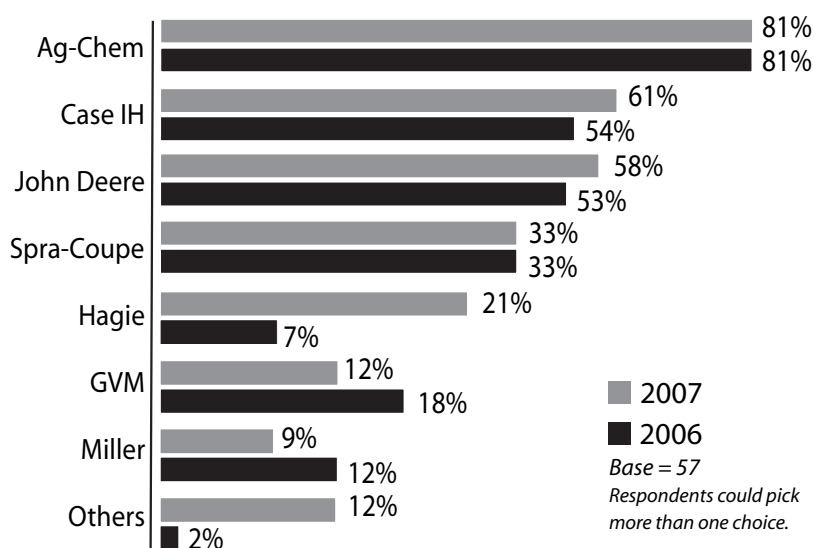
Last month, **AEI** reported Exel's purchase of Moreau, a French sugar beet equipment company, and its consolidation with the two similar manufacturing operations acquired previously.

With Hardi, crop protection equipment sales will account for one third of Exel's revenues, which in this fiscal year are forecast to exceed \$645 million.

In 2005-06, Exel's crop protection division had sales of more than \$212 million, while Hardi sales slipped to \$178 million in a difficult season.

Sales during the first half of 2007 reached \$106 million, compared with \$98 million in '06. Hardi executives forecast revenues of \$198 million for all of 2007. **AEI**

### AG-CHEM COLORS MOST PROMINENT AMONG AG RETAILERS' SPRAYER FLEETS



According to data from the 2007 CropLife 100 survey, Ag-Chem topped the list for of sprayer market share among ag retailers for the second consecutive year. Hagie jumped 14% year-over-year to 21% of the total share. Looking forward to 2008, ag retailers are planning to buy Ag-Chem and Deere in the greatest numbers (49% each), followed by Case IH at 38%.

## Kubota's First-Half Fiscal Profit Off 3% as Domestic Sales Slip

Kubota Corp., Osaka, reported on November 6 that its earnings during the first-half of fiscal 2007-08 ended September 30 fell by 3% on a slight sales increase, which the company said was linked to an unfavorable domestic market.

Kubota said it earned a lower \$374.1 million during July-September 2007 on sales of \$4.87 billion. That compares to a year-ago gain of \$396.8 million from revenue of \$4.99 billion.

Sales in the domestic market decreased by 3.6% to \$2.38 billion as revenue in internal combustion engine and machinery fell due to falling sales of core farm machinery, despite higher turnover construction machinery and engines.

Kubota said revenue in overseas markets increased by 4.5% to \$2.64 billion. Sales of farm tractors fell in North America amid a slowdown of the U.S. housing market, as sales of

construction machinery and engines also decreased. However, sales of tractors, construction machinery and engines in Europe increased sharply, the firm added. In Asia outside Japan, sales of tractors continued a high rate of growth especially in Thailand.

The company lifted its earnings outlook slightly for all of fiscal 2007-08 ending March 31 at \$694.8 million, while leaving its sales forecast of \$10.2 billion unchanged. **AEI**

## Zetor Tractor Sales Continue to Improve

Zetor, the Czech tractor manufacturer owned by Slovakia's HTC Holding group, is continuing on its recovery path with a further increase in unit sales and revenues last year.

The company says it sold almost 65,00 tractors in 2006, about 4% up from the year before, with group revenues climbing to the equivalent of \$256 million, up 25%. Profits also

increased but were reduced to \$7.8 million by a one-time \$5.23 million legal expenses bill.

"Our most significant markets in 2006 remained Poland, Czech Republic, Slovakia, the U.K., Ireland and the U.S.," says Radovan Putna, head of Zetor's sales arm. "We also succeeded in expanding our sales activities to Russia and Sudan."

Much of last year's \$6.86 million investment went toward modernizing the Brno factory's manufacturing facilities and premises. This year's \$15 million budget is going toward new production machinery and technical developments, which include preparing Zetor's 4-cylinder engines for exhaust emissions limits beyond the current Euro 3a/Tier III requirements. **AEI**

## EU Investigating Romania's Sale of Tractor Firm

The long-running saga in the attempt to privatize Romania's state-owned tractor manufacturer Tractorul continues.

Now, the deal that saw the bankrupt business sold to an investment fund is being investigated by the European Union's antitrust organization for a possible breach of Europe's state aid rules.

The European Commission's investigation centers on the conditions attached to the sale by the

Romanian authorities — in particular, that tractor production would have to be maintained for 10 years and that former employees of Tractorul must be re-hired.

The commission wants to verify whether these conditions resulted in a lower sale price, in which case it could be deemed that some element of state aid was involved.

It was because of these rules that the Romanian government was unable to agree to Mahindra &

Mahindra's demands that substantial debt should be written off. It prevented the Indian tractor firm from striking a deal to buy Tractorul as a going concern and led to the business being liquidated.

Flavus Investments purchased the Romanian site in the town of Brasov, for \$110 million. It announced plans to restart production and aim for an ambitious 10,000 tractors a year output, while developing surplus land as a real estate venture. **AEI**

## Turkish Firm Props Up Troubled Polish Tractor Maker

The leading farm equipment supplier in Turkey has thrown Poland's struggling tractor maker Ursus a lifeline.

Uzel Makina is finalizing terms to transform Ursus into a joint-venture business with its current owner, the Bumar industrial group. Uzel will own 51% of the new operation and, according to local press reports, plans to invest the equivalent of \$29 million over the next 3 years on plant reorganization and improvement.

Ursus, which is based near

Warsaw, was once one of Poland's industrial flagships, producing up to 80,000 tractors a year at its peak in the 1970s.

### Post-Communist Struggle.

Having struggled with the post-communist free market, in 2001 it was put in the hands of Bumar, a state-owned manufacturer of commercial and military vehicles. Last year, when Ursus celebrated the production of 1 million tractors, annual output had dropped to about 1,500 units.

The potential for future growth of Poland's agricultural sector within the EU is likely to have been one of the attractions for Uzel, which builds Massey Ferguson tractors and Perkins-licensed engines for the domestic market.

Of the 14,000 tractors built at Uzel's Rani plant near Istanbul in 2005, 2,000 units were shipped to the U.S. where AGCO sells the low-horsepower utility tractors under its Massey Ferguson brand. **AEI**

## Equipment Sales Continue Strong Trend in November

"North American retail agricultural equipment sales comparisons were impressive in November as retail sales in all three categories of large agricultural equipment increased by more than 50% year-to-year, albeit against less-challenging prior-year comparisons," is how Baird analyst Robert McCarthy describes the continuing strong sales of big equipment.

A recap of November figures from the Assn. of Equipment Manufacturers show 4WD tractor sales increased 84%, row-crop tractor sales were up 57%, and combine sales increased 54% year-to-year. "With dealer inventories continuing to hover around historically low levels, the outlook for machinery production schedules remains positive," says McCarthy.

◆ Retail sales of row crop tractors increased 57% year-over-year in November after a 24% increase in October. Row-crop tractor sales increased 42% year-to-year in the last 3-month period. November contributes about 5% of annual row-crop tractor sales, on average.

◆ U.S. and Canadian retail sales of 4WD tractors jumped in November, increasing 84% year-to-year after a 59% increase in October; retail sales have increased 55% year-to-year during the September to November period. November is a less seasonally important month for row-crop tractor sales, contributing an average 5% of annual sales during the previous 5 years.

◆ Retail sales of combines increased 54% year-to-year in November after rising 8% in October, and are up 22% on a year-to-year basis in the last 3-month period.

◆ Dealer inventories of row-crop tractors and combines continued to decline on a year-to-year basis in October, falling 1% and 16%, respectively, while dealer inventories of 4WD tractors increased 24% year-to-year. On a days-sales basis, inventories of row-crop tractors (105 days-sales vs. 135) and combines (49 days-sales vs. 68) declined significantly year-to-year, while 4WD inventories increased modestly (98 days-sales vs. 94).

**AEI**

### NOVEMBER U.S. UNIT RETAIL SALES



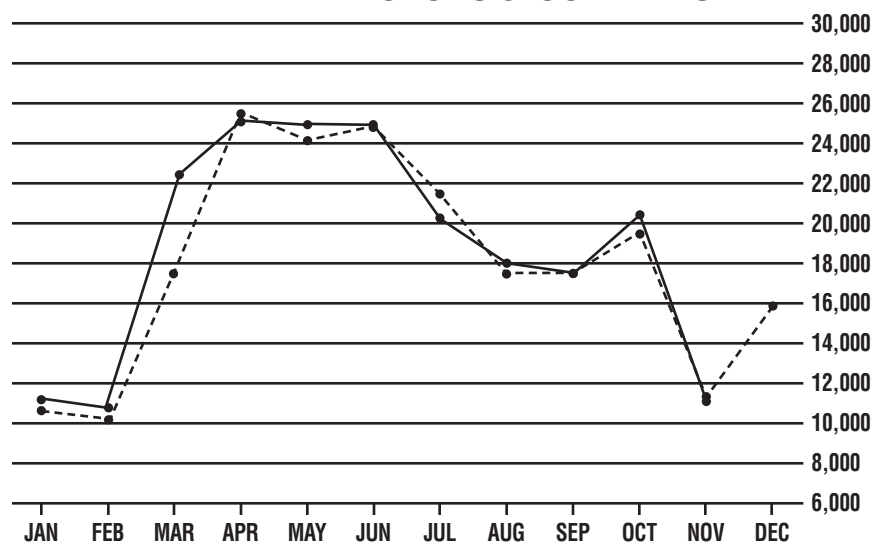
Equipment	November 2007	November 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	Nov. 2007 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	5,061	5,760	-12.1	108,831	114,486	-4.9	51,260
40-100 HP	3,846	3,775	+1.9	71,669	68,995	+3.9	30,748
100 HP Plus	1,083	704	+53.8	18,236	14,851	+22.8	5,685
<b>Total-2WD</b>	<b>9,990</b>	<b>10,239</b>	<b>+2.4</b>	<b>198,376</b>	<b>198,292</b>	<b>+0.2</b>	<b>87,693</b>
<b>Total-4WD</b>	<b>203</b>	<b>108</b>	<b>+88.0</b>	<b>3,300</b>	<b>2,714</b>	<b>+21.6</b>	<b>938</b>
<b>Total Tractors</b>	<b>10,193</b>	<b>10,347</b>	<b>-1.5</b>	<b>202,036</b>	<b>201,006</b>	<b>+0.5</b>	<b>88,361</b>
<b>SP Combines</b>	<b>379</b>	<b>263</b>	<b>+44.1</b>	<b>6,207</b>	<b>5,368</b>	<b>+15.6</b>	<b>921</b>

### NOVEMBER CANADIAN UNIT RETAIL SALES



Equipment	November 2007	November 2006	Percent Change	YTD 2007	YTD 2006	Percent Change	Oct. 2007 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	753	533	+41.3	10,788	9,181	+17.5	5,110
40-100 HP	719	541	+32.9	6,708	6,647	+0.9	2,905
100 HP Plus	431	262	+64.5	3,681	3,344	+10.1	1,487
<b>Total-2WD</b>	<b>1,903</b>	<b>1,336</b>	<b>+42.4</b>	<b>21,177</b>	<b>19,172</b>	<b>+10.5</b>	<b>9,502</b>
<b>Total-4WD</b>	<b>70</b>	<b>40</b>	<b>+75.0</b>	<b>696</b>	<b>586</b>	<b>+18.8</b>	<b>172</b>
<b>Total Tractors</b>	<b>1,973</b>	<b>1,376</b>	<b>+43.4</b>	<b>21,873</b>	<b>19,758</b>	<b>+10.7</b>	<b>9,674</b>
<b>SP Combines</b>	<b>148</b>	<b>79</b>	<b>+87.3</b>	<b>1,501</b>	<b>1,461</b>	<b>+2.7</b>	<b>275</b>

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



—Assn. of Equipment Manufacturers



## Titan Machinery Goes Public with Offering of 6 Million Shares

In a filing with Securities and Exchange Commission on December 3, Titan Machinery of Fargo, N.D., indicated that it intended to offer 6 million shares of its common stock through an initial public offering.

Titan Machinery is the largest dealer of Case IH and New Holland farm and construction equipment brands in the U.S. It currently owns and operates a network of 34 full-service farm and construction equipment stores and two outlet stores in the upper Midwest.

Titan's revenue increased by 28% during fiscal 2007 to \$292.5 million from \$228.4 million in fiscal 2006. Its gross profit margins were 16.7% in fiscal 2007 compared to 15.2% one year earlier.

The firm plans to use the proceeds of the offering, expected to be \$38.6 million, to fund potential acquisitions of CNH farm and construction machinery dealerships, general corporate purposes and to repay debt, according to its SEC filing.

Titan set the initial price per

share at \$8.50. Following the IPO, which was offered through Craig-Hallum Capital Group and Robert W. Baird & Co., the firm said shares of its common stock would begin trading on the Nasdaq Global Market under the stock symbol TITN.

As of November 13, Titan shares traded for \$10.08 on a volume of 365,751 shares.

AEI will take an indepth look at Titan's venture into the world of publicly traded companies in its upcoming issues. **AEI**

## Corn Ethanol Demand Will Remain High, Cellulose Not Ready Yet

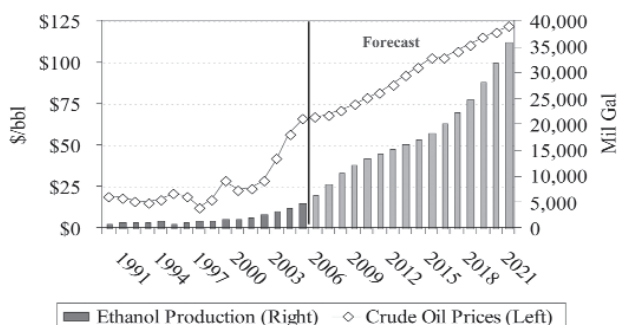
John Urbanchuck, Director, LECG LLC, a consulting firm in Wayne, Pa., believes that despite the naysayers, the demand for ethanol from corn will remain high for the next decade or more.

Urbanchuck says that while cellu-

lose will be required to move past the 15 billion gallon per year level for ethanol production, cellosoic technology and cost are its limiting factors. Enzymatic conversion promises lower costs, but is not yet commercialized.

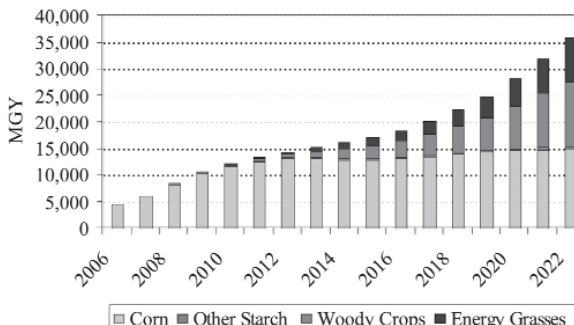
He says that cellulose feedstocks remain the big question. Will they be corn stover, energy grasses, woody crops, forest residue or algae? He says, these will present opportunities for equipment makers. **AEI**

### ETHANOL PRODUCTION VS. OIL PRICES



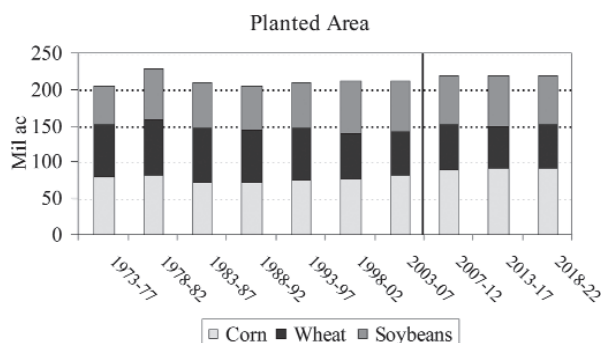
**Ethanol demand will increase as oil prices stay high as demonstrated here. (Sources: LECG, EIA Annual Energy Outlook 2007)**

### SOURCES FOR ETHANOL – 2006-22



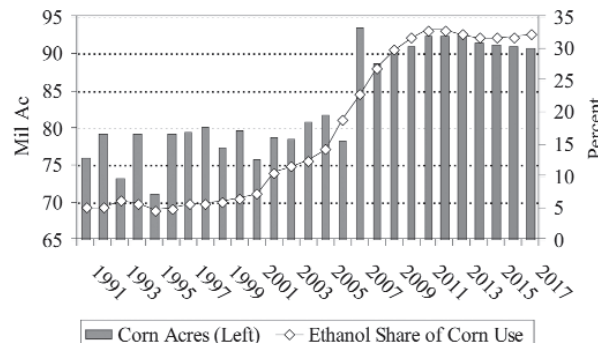
**Over the next decade, most ethanol will come from corn. However, cellulose will be needed to move past the 15 billion gallon level. (Source: LECG, Oct. 2007)**

### PAST & FUTURE PLANTED ACRES – U.S.



**While biofuels will help keep planted acres high during the next decade, land will be the major constraining factor for increased production. (Source: LECG)**

### CORN ACRES & ETHANOL SHARE



**Unfortunately we are not making any more land. Growth in production will have to come from improved yields. (Source: USDA/LECG)**