From the editors of *Farm Equipment...*

# Ag Equipment Intelligence

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*News, Information & Analysis for the Ag Equipment Marketer*

- AGCO Sales Drop 21%
- Brazil Sales Strong
- CNH Results Mixed

## Consolidation Continues as Cancelled Deere Dealers Try to Move On

As John Deere ramps up its efforts to consolidate the ranks of its dealer-principals, few of its cancelled dealers say they were surprised when they received the letter telling them that they were no longer a member of the company's high-performance team.

Nonetheless, the knowledge that they would sooner or later be cancelled doesn't take away the sting of being kicked out of the John Deere dealer fraternity. Some memberships were decades long.

A January 12 post on the *Farm Equipment* web site (www.farm-equipment.com) about the cancellation of Schmitt Implement in Iowa ignited a firestorm of response from all sides of the dealer consolidation debate. Dealers from Australia, England, Europe and Argentina weighed in with their views on Deere's tactics to reduce its number of dealer-principals. Some defend the company's moves and others are critical of the company's consolidation mindset itself. What most find difficult to swallow are the methods being used to eliminate the smaller dealers that have sold John Deere farm equipment for years, if not decades.

*AEI* interviewed several dealers who have had their dealer agreements cancelled by Deere. Asked to comment on these cancellations, Deere said that it could not comment on former dealerships.

**Schmitt Implement, Holy Cross, Iowa.** Despite his salesmen winning market-share trips to Ireland within the last 3 years, Willis Schmitt told *AEI* his cancellation, which became official at the end of 2009, was all based on market share.

"We're selling about the same as we did 5 years ago, when our market share was 41.9%," he says. "But no one at John Deere can tell you how they define market share. It's whatever they want to make it."

Schmitt believes Deere wanted to yank his location and manipulated his numbers to make it happen. For example, in recent years, Schmitt says that he was consistently told that equipment he needed to order was not available, only to find out later that it was available.

"Our market share was falling because they kept us from getting equipment to sell," he says.

To further illustrate how nasty

*Continued on page 2*

## Small Tractor Makers Face Turbulence as Market Sorts Itself Out

For more than 2 years, observers of the farm equipment industry have been saying that a shakeout among compact tractor makers in North America is not only necessary, but is on the way.

But besides the trauma caused by Farmtrac's hasty retreat from the market in 2008, little has changed in this increasingly overcrowded segment of the ag equipment industry, despite the fact that unit sales of compact and utility-sized tractors have continued to decline every year since 2005.

While equipment dealers see a pick up in sales for 2010, no one expects a return any time soon to the phenomenal growth of small tractors in the 1990s through '05.

At the same time, new players, like the South Korean brand, LS Tractor, have jumped into the fray, adding to the glut of manufacturers trying to claim a piece of the rural lifestyle market.

One tractor industry executive feels the small tractor market is primed for a consolidation or reduction in the number of players, with Branson, Montana and McCormick currently facing the most uncertainty and TYM, Case IH, LS Tractor, Kubota and Kioti dealing with their own financial or marketing challenges.

"The bottom line is that the industry is 60% of what it was 18 months ago. I continue to be surprised that everyone is hanging in there, plus the new entrants," the executive said.

**Consolidation Delayed.** It appeared that joint-venture discussions between Montana Tractors and Branson Tractor's parent company, Kukje Machinery of South Korea, would be a major step toward consolidation. But those were called off in January, with both sides blaming economic conditions in the U.S.

Newly appointed Branson Tractors President Young Nam said a new management team would be appointed to boost sales and improve customer service in North America as Branson starts its "new beginning."

Montana announced last fall that

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this business can be, Schmitt says that his Farm Plan financing was pulled without notice earlier in the year.

"Our customers got letters saying that we weren't a qualified Farm Plan dealer. No one will call me back and it's driving business away," he says.

Schmitt recalls that his dealership was the first in Iowa to offer Farm Plan financing, and adds that there are many non-John Deere dealers who are Farm Plan merchants.

## Oklahoma Dealer Sues Deere for Canceling Agreement

While it appears that most cancelled John Deere dealers that *Ag Equipment Intelligence* spoke with are looking for new equipment suppliers, at least one Oklahoma dealer says he isn't taking the loss of his dealer agreement sitting down. According to court records, Green Country Agricultural and Lawn Equipment Co. of Tulsa, Okla., filed suit on December 28, 2009, against John Deere Co. and P&K Equipment for "Tortious Interference Contract" in Rogers County, Okla.

In a telephone interview with *AEI*, Lester Gagan, one of the owners of Green Country Ag and Lawn, says that John Deere cancelled its dealership agreement in April 2008. The dealership operated two store locations in Tulsa and Pryor, Okla. "It wasn't about market share," Gagan says about the cancellation. "If it had only been market share, I could have handled it, but it was all of the other things they threw at us."

He says that when he and his partners acquired the Tulsa location in December 2000, it was in danger of being closed for low market share. As part of the sales agreement, Green Country was also required to re-open a dealership in Pryor, Okla., that had been shut down for 5-6 years before the partners reopened it in 2001. Gagan estimates that sales for both stores were more than $18 million when they finally "succumbed to the pressure" and sold the business to P&K Equipment in April 2008.

Between 2006-07, he says the dealership's sales of wholegoods, parts and service grew by more than 30%. It was up 40% in April 2008 compared with April 2007. "We had also grown our governmental business tremendously and had become one of the largest suppliers of equipment to state and local municipalities in Oklahoma," Gagan says. "We were on a fast track and had landed a big federal contract for an army base in 2007, but Deere wanted the contract to go to another dealer that didn't even do government business.

"The fort commander told them, 'If you don't give it to Green Country, we'll go with New Holland.' So Deere gave in."

On the advice of his attorney, Gagan says he isn't able to elaborate on the details of the "other things" that led to the cancellation because the case is pending, He did say that the dealership was put on a COD basis, failed to receive parts they ordered and forced into an expensive internal audit that would have covered the entire 7 years they owned the dealership.

He says he can only speculate that his supplier wanted another bigger dealer to have the business and did what it wanted to do to make it happen.

"They forced us to sell to a larger dealer who now controls the market and, worst of all, the price of parts," says Gagan, who now works as vice president of industry affairs for Global Oilfield Services in Tulsa.

Despite all of this, he intends to remain in business with his shortlines and is in the process of selecting another tractor manufacturer to represent. Schmitt estimates that he'll lose 4 months of opportunity with all that's involved in exiting from Deere and choosing another manufacturer.

"Most dealers don't think John Deere would ever do this to them," he says. "And it's a damn shame for those dealers who stay pure green and have nothing else when that letter arrives."

**L&T Equipment, Buckhannon, W.Va.** Donald Nay told *AEI* that his Deere dealership was also cancelled for market share. "It was down, but we were making gains. They wanted it to be close to 50%, and it's very hard to turn that around in 6 months."

Nay says he knows that Deere wants dealers separated by about 75 miles. "We're so isolated out here, I don't think it'll work in this area," he says. "But we never considered selling out, and we didn't want to buy any other stores, either."

Since his cancellation by Deere, Nay has picked up AGCO equipment. He says that his customers are OK with the change because they recognize AGCO as a good brand.

"Based on our discussions, I think 90% of the customers will come over." Nay says he's glad that John Deere wasn't involved in helping to finance his building, or L&T really would have had a real mess on their hands.

**Oliver & Sons, Canaseraga, N.Y.** Dealers may find encouragement, though, in the story of upstate New York-based Oliver & Sons. This 60-year-old company was cancelled by John Deere in October 2008 but just finished its first full year selling AGCO equipment.

"Deere got me on the market-share clause," says Charles Oliver. "In our area of responsibility, we had

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three other John Deere dealers. Deere wants market share, but price is the only factor when four dealers are involved in a deal."

Oliver says Deere didn't like his location and pressured him to merge and build a new facility. He says he wasn't willing to saddle his sons with debt. He was not surprised by his cancellation. In fact, he says he was told in no uncertain terms that his store was a dead-end and his sons would never be approved once he retired.

"We could've gone to arbitration, but when you're this mad at a company, why spend more time with them? This is an example of big corporate America trying to run a business. John Deere does not want any single stores in their network."

Upon signing with AGCO, he was up and running in about 2 weeks. A year later, Oliver says he's kept about 85% of his customer base, noting that making a dent in the "green-paint-only boys" is an uphill climb. But he sold 64 tractors in 2009 and was profitable in the first year with his new supplier.

**Exit Time Costly.** The biggest headache, says Oliver, is exiting the Deere relationship. He estimates it took 3-4 months to package all the parts, send them in — which are discounted at 15% — and wait.

"Of course, they stuck us with $100,000 in parts that they considered obsolete," Oliver says. "Then you still have the notes outstanding. I'll be waiting another 4 years before they're settled up."

Other challenges include the new computer system to install and learn, and the need to send techs to service schools.

Oliver believes that the joining of ag and consumer products divisions last year has given John Deere more leverage in closing dealers, particularly as many dealerships continue to merge.

"It's extremely dangerous when the dealer gets into these buyouts and turns to John Deere for financing," he says.

"John Deere will get a percentage ownership in the dealership and then dictate to them. That's what I think is going on." AEI

## John Deere Statement Concerning Dealers

*Ag Equipment Intelligence* invited John Deere to respond to the comments offered by the dealers in this story. They were also asked by *AEI* to define how the company defines market share.

Here is their response, which is unedited.

For generations, dealers in North America have been extremely important to the successful sales of John Deere equipment in many industries. That was true in the past and will be in the future as the company continues to focus on meeting the challenges of providing customers with the products and services they require to be productive and profitable.

Our focus continues to be on the customer and we believe that John Deere dealers of the past, present and the future share that same commitment to create businesses that are appropriate for the customers they serve.

John Deere does not make public comment on any relationship with a dealer and does not discuss publicly the myriad of reasons a dealership might no longer represent John Deere in any particular market. However, the company does work proactively with dealers to communicate what is required to represent the John Deere brand.

## To see the industry's reaction to the dealer cancellations, visit these web pages:

Comments on Schmitt Implement: http://bit.ly/8tQt1V
Comments on Charles Oliver & Sons: http://bit.ly/8RAdy3
Comments on *Farm Equipment/AEI* Video Interview: http://bit.ly/8KHk5m

**FARM MACHINERY TICKER (AS OF 2/11/2010)**

| Mfr. | Symbol | 2/11/10 Price | 1/12/10 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|---|---|---|---|---|---|---|---|---|
| **AGCO** | AGCO | $33.46 | $35.24 | $37.41 | $14.62 | 14.59 | 1.23 M | 3.09 B |
| **Alamo** | ALG | $17.90 | $15.09 | $18.72 | $9.22 | 24.62 | 41,960 | 210.25 M |
| **Art's Way** | ARTW | $4.00 | $4.30 | $6.35 | $3.06 | 148.20 | 4,667 | 15.97 M |
| **Caterpillar** | CAT | $56.15 | $62.24 | $64.42 | $21.71 | 39.27 | 8.53 M | 35.05 B |
| **CNH** | CNH | $24.39 | $27.18 | $29.11 | $5.69 | NA | 261,249 | 5.79 B |
| **Deere** | DE | $52.32 | $57.39 | $60.16 | $24.51 | 25.42 | 4.94 M | 22.11 B |
| **Kubota** | KUB | $45.29 | $50.53 | $51.08 | $22.51 | 32.58 | 27,065 | 11.52 B |
| **Titan Machinery** | TITN | $12.16 | $13.05 | $17.00 | $7.50 | 14.06 | 196,260 | 216.12 M |

*Continued from page 1*

it signed a supplier agreement with Kukje. This month, Montana would not comment about the status of that agreement, or the company's intentions, except to say Montana and Branson "will continue moving forward individually."

One industry observer says Montana and Branson stood to gain from working together, but separately, they face a tough road ahead. A large portion of small tractor sales comes from the rural lifestyle market and is based on discretionary income, which has disappeared with the recession.

"A marketing agreement with Montana could have given Branson a much needed expansion of its dealer base," the source says. "Properly structured, Montana could have enhanced Branson's position in the market. But under the circumstances, it would not be surprising if there are discussions with other parties."

**Falling Sales.** Sales figures from the Assn. of Equipment Manufacturers (AEM) shows that compact tractor sales in North America (under 40 horsepower) have declined every year since 2005. And sales of utility tractors (40-100 horsepower) have fallen each year since 2007.

Through 2009, sales of compact tractors and utility tractors in the U.S. were down 19.8% and 28.4%, respectively, compared to 2008. In Canada, sales of compacts were off 23.6% last year, compared to '08, and utility tractors were down 18%.

After its annual survey of ag machinery manufacturers, AEM predicts "continued weakness" in North America for tractor sales in 2010, but the decline is not expected to be as steep as that seen in 2009. A rebound in unit sales of compact and utility equipment is forecast for 2011 and expected to continue into 2012.

For tractors in the 40-100 horsepower range, U.S. sales are expected to decrease 6% in 2010 and then gain 9% in 2011 and 8% in 2012, according to AEM. Canadian sales in the 40-100 horsepower range could drop 4% in 2010, but increase by 6% in 2011 and 7% in 2012.

Sales of under-40 horsepower tractors are expected to decrease 8% in the U.S. and drop 15% in Canada in 2010. For the U.S., 2011 growth of 8% and 2012 growth of 11% is predicted, and for Canada, gains of 4% in 2011 and 10% in 2012.

Dealers appear more optimistic about the timing of a sales recovery.

In its *2010 Dealer Business Trends & Outlook* report, *Rural Lifestyle Dealer*, a sister publication of *Ag Equipment Intelligence*, found that dealers believe that prospects for unit sales this year are much improved for compact and utility tractors.

More than 90% of North American dealers believe unit sales of utility tractors will be as good or better in 2010 than in 2009. Some 88.3% are projecting a recovery for sales of compact tractors.

**A Crowded Stage.** With tons of resources and well-developed dealer networks, the major farm equipment makers — AGCO, Case IH, John Deere, Kubota and New Holland — are firmly entrenched and committed to the small-tractor market. But that hasn't scared off other equipment makers like Mahindra, TYM, Kioti, McCormick and LS Tractor USA from aggressively seeking a bigger piece of the market.

With the backing of its parent, Mahindra & Mahindra, a $6.3 billion Indian conglomerate, there's little doubt that Mahindra USA is in the tractor business for the long term. Right now, Mahindra may be strongest of the small tractor makers.

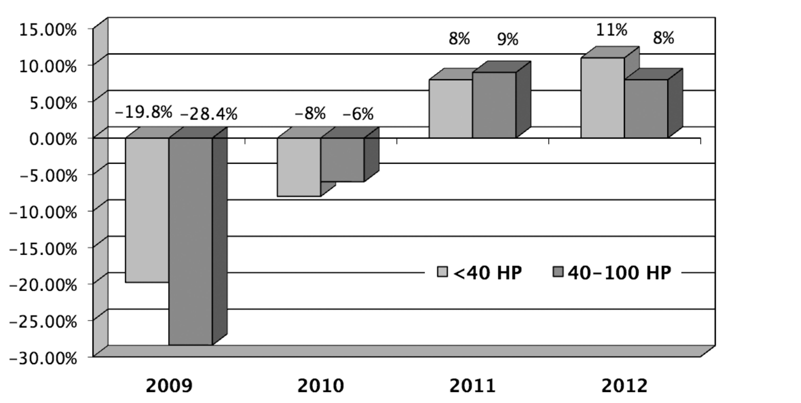
At its national dealer meeting Feb. 3-5 in Fort Worth, Texas, Mahindra USA unveiled a new logo, introduced new tractor models and announced plans to more than double its 5% market share by 2013. Mahindra USA also announced a proposed joint venture between Mahindra & Mahindra Financial Services and Agricredit/DeLageLanden — a subsidiary of Rabobank — that could give dealers additional financial support.

LS Tractor USA could be the player to watch in the next few years. Its parent company, LS Mtron — spun off from LS Cable in 2008 when it became a holding group — has set a goal to be a top-five brand in the North American market by 2012. The company says it's committed to the U.S. market and announced plans in April 2009 to build headquarters, manufacturing and distribution facilities in a $14 million development in Battleboro, N.C.

"The question becomes how Branson and others survive in a market that is flooded with competition and has experienced a significant downsizing," an industry source told AEI. "AGCO, Kubota, Deere and New Holland, because of their market presence, account for 75% or more of the sales in the sub-compact and compact tractor market. The remainder is left for 5 or 6 other companies to fight over."

"Unless the market picks up considerably in the next 18 months — meaning loosened credit and a thriving residential real estate market — the field will be culled to about 10 players, with the top 5 capturing 90% of the market," the tractor industry executive says. "The brands that are undercapitalized, have an uncertain supply chain or have a weak dealer network will have to exit." AEI

**Projected Sales Compact/Utility Tractors — U.S.**




*Source: Assn. of Equipment Manufacturers*

# AGCO Worldwide Sales Off 21% for the Year

Dealing with lower worldwide demand for farm machinery, AGCO reported a 21.3% decrease in full year while reporting its latest financial results in mid-February. Net sales for 2009 were $6.6 billion and reported net income, was $1.44 per share. This was down from $3.95 per share in 2008.

For the fourth quarter, AGCO net sales were approximately $1.9 billion, a decrease of 14.1% in net sales of $2.2 billion for the same period in 2008. Adjusted net income for the quarter was 42 cents per share, a drop of 24.2% from a year earlier.

Production of tractors and combines in the fourth quarter of 2009 were 23% below the 2008 level.

**Challenging Markets.** Henry Kirn of UBS Investment Research in New York City has placed a $25 price target and sell rating on AGCO shares. "Our price target reflects a 15% discount to the market multiple 2010 EPS plus $2 of cash," he says. "While we view AGCO's strategic initiatives favorably, our rating reflects a still challenging global ag market and lofty investor expectations."

Kirn says U.S. net farm income was 28% lower in 2009 than during the previous year. While he sees firm corn prices that are forecast by USDA at $3.70 per bushel for the 2009/2010 marketing year, he remains neutral on Deere and CNH due to an anticipated 10% decline in ag equipment sales in North America during the coming year.

Ann Duignan of JP Morgan says the key to a favorable AGCO outlook for 2010 may be related to tractor demand in Europe. Another major concern is the level of the dollar when trading again the Euro and Real. She also noted that AGCO management will need to reduce equipment inventories in the North America, Europe, Africa and Middle East regions.

Barry Bannister of Stifel Nicolaus wrote in a note to investors that he was surprised to learn that the company plans to reduce production to clear 2010 inventories due to AGCO's long-term focus on working capital. He's lowering his 2010 EPS from $1.77 to $1.51 due to weaker western European operations, higher engineering expenses and increased production cuts.

**Global Downturn.** "The year proved to be challenging for our industry and our company," stated Martin Richenhagen, AGCO Chairman, President and Chief Executive Officer. "The global economic downturn and significantly lower demand across all of our major markets forced us to make dramatic changes to our operating plan during the year."

*"Sales in North American were down 42% in the fourth quarter..."*

**Plant Shutdowns.** "We executed temporary plant shutdowns in all of our factories, reduced our workforce, made significant cuts in production and successfully lowered company and dealer inventories," says Richenhagen.

"Despite the softening demand throughout the year, we were able to reduce inventory and accounts receivables by over $550 million, on a constant currency basis, from 2008 year-end levels.

"We also maintained our strategically important research and development efforts and capital expenditure programs at high levels. Our financial discipline enabled us to further strengthen our balance sheet, resulting in a nearly net debt free position at year-end."

Richenhagen says the company has more work to do with inventory reduction initiatives. "In the first quarter of 2010, we have scheduled temporary plant shutdowns aimed at effectively managing inventory levels while efficiently operating our plants," he says. "These temporary closures will negatively impact first quarter 2010 results. Despite the softer market conditions we face, the healthy, long-term fundamentals of our industry remain intact. We will continue to invest in new product development, distribution enhancements and productivity improvements to enable our growth and improve profitability."

**Market Changes.** While the company sees stabilization in some markets, it expects further weakness in Europe and North America.

AGCO's South American region reported a sales increase of 3.6% compared to the fourth quarter of 2008.

The Europe, Africa and Middle East region reported a sales decline of 27% for the quarter. Demand continued to slow in France, Germany, Finland and Scandinavia while Russian and Eastern European markets remained extremely weak.

Sales in North American were down 42% in the fourth quarter due to lower sales of utility and hay products tied to the dairy and cattle sectors as well as dealer inventory reductions.

For the coming year, AGCO expects worldwide demand to be mixed in the first half of 2010. Stronger market conditions in Brazil should offset weaker conditions in North America and Europe. AGCO executives are predicting that demand in North America and Western Europe will stabilize during 2010, making comparisons to 2009 more favorable in the second half of the year.

AGCO is targeting adjusted earnings in a range of $1.55 to $1.65 per share for the full 2010 year. Net sales are expected to be in the $6.6 to $6.8 billion range. However, gross margin improvements are expected to be offset by higher engineering expenses for new product development, Tier 4 emission requirements and higher pension costs. AEI

**Full Year AGCO Financial Comparison**

| Category | 2009 | 2008 |
|---|---|---|
| Net sales | $6.6 billion | $8.4 billion |
| Net income | $135.7 million | $385.9 million |
| Net income per share | $1.44 | $3.95 |

# German Ag Equipment Sales Dropped 25% in 2009

Following the strongest 5-year period for farm machinery sales in the industry's history, German manufacturers saw the industry shrink by a quarter in 2009. According to the Frankfurt-based VDMA Agricultural Machinery Assn., equipment sales dropped to $7.7 billion last year.

Between 2004-2008, German equipment makers saw sales grow by two-thirds to $10.2 billion driven by extraordinary sales to Central and Eastern European farmers, as well as solid demand for new machinery from European Union countries.

"Fewer orders from Eastern European markets were an important reason for the sales decrease. Given the result of 2009, however, we were still at good levels in the years 2006 and 2007", said Gerd Wiesendorfer, market analyst for VDMA.

Following a strong first quarter in 2009, which were fueled by pent-up demand from the boom year of 2008, sales fell off rapidly. Overall, farm equipment sales declined by 15% for the first half of 2009, and by 38% in the second half of the year.

In 2009, German ag equipment exports to Russia fell by more than 60%. Similar scenarios also played out through most of the rest of Central and Eastern Europe. An exception was Romania, where spending on equipment increased, which was driven by European subsidies.

**Slight Comeback.** Despite the ongoing difficulties with credit markets and protective tariffs enacted by some countries, the demand for new, and more efficient machinery remains strong in Eastern Europe.

According to VDMA, "One can assume that machinery sales will recover slightly despite the difficult import conditions in some countries.

"On the German market, no revival of demand is foreseeable in the coming months. German farmers are currently investing their available funds primarily in photovoltaic and biogas plants," says Wiesendorfer.

He also stressed that a decrease in agricultural incomes in virtually all EU countries in the past year must also be taken into account. However, higher milk prices and the continuing expansion of farms are likely to provide a good environment for the purchase of new machinery even under current conditions. AEI

**Sales of German Agricultural Equipment**
**(in millions of U.S. dollars) 08 vs. 09**

| Total Sales | 2008 | 2009 | Change |
|---|---|---|---|
| Ag Equipment | 5,416.0 | 4,118.4 | -23.9% |
| Tractors | 4,846.2 | 3,578.7 | -26.2% |
| Total | 10,261.5 | 7,689.1 | -25.0% |
| **German Sales** | | | |
| Ag Equipment | 1,520.0 | 1,433.67 | -5.7% |
| Tractors | 1,026.2 | 921.3 | -10.2% |
| Total | 2,546.6 | 2,355.2 | -7.5% |
| **Export Sales** | | | |
| Ag Equipment | 3,895.9 | 2,684.9 | -31.1% |
| Tractors | 3,820.8 | 2,657.2 | -30.4% |
| Total | 7,714.5 | 5,341.9 | -30.8% |

*Source: VDMA Agricultural Machinery Assn.*

## Buhler Acquires Assets of Feterl Mfg.

Winnipeg-based Buhler Industries Inc. purchased the assets of Feterl Manufacturing, Salem, S.D., on Feb. 11. The acquisition expands Buhler's Farm King grain handling lineup and increases auger-manufacturing capacity.

The purchase includes land, buildings, equipment, tooling, inventory, patents and trademarks. The 145,000 square foot facility manufactures grain handling equipment including top driveaugers, swing-away augers, drive-over hoppers and grain cleaners. Buhler received a low-interest loan from the South Dakota Economic Development Corp. AEI

# Brazilian Equipment Sales Remain Strong in December

December sales of farm machinery in Brazil continued the trend set in the previous 2 months. According to figures released by Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA) in Brazil, total farm tractor unit sales in Brazil were 4,054 units, up 40% year-over-year.

This followed a 23% increase in November and 18% in October. Combine sales for the month were 791 units, up 86% year-over-year vs. up 40% in November and down 13% year-over-year in October.

"The strength in tractor sales was mostly expected," says Ann Duignan of JP Morgan in a note to investors. "Combine sales were up notably for the second consecutive month, likely driven by the government's financing program that expired on December 31, as well as the increased acreage in soybeans."

Overall, combine production was up 51% and tractor production rose 2% year-over-year in December.

Tractor sales for full-year 2009 were 45,435 units, 5% above the last peak, in 2008, of 43,414 units. Combine sales for full-year 2009 were down 14% year-over-year at 3,815 units, notably below 2004 peak levels of 5,598 units.

CNH outperformed the industry in the fourth quarter in both tractors and combines. CNH's unit sales were up 35% year-over-year vs. Deere (+28%) and AGCO (22%). CNH's unit sales of combines rose by 59%, AGCO's were up 18% and Deere's sales increased by 16%. AEI

# Tractor, Combine Sales Rise in January

North American retail sales of both high-horsepower tractors and combines rose sharply in January, according to the latest sales figures from the Assn. of Equipment Manufacturers.

Overall, tractor sales of all categories in January increased to 9,801 units compared with 9,467 in January 2009.

"We believe that the strong sales in January were likely driven by the spillover in year-end spending on equipment from 2009," says Ann Duignan, analyst for JP Morgan.

- Unit sales of tractors over 40-horsepower were up 7% year-over-year,vs. down 10% in December and down 17% in November.
- Sales of tractors in the 40-100 horsepower range fell 7% year-over-year compared with -16% in December and down 22% in November.
- Unit sales of compact tractors (under 40 horsepower) were down 1% year-over-year vs. down 6% in December and down 5% in November.
- Sales of high-horsepower tractors -- over 100-horsepower --rose 32% in January compared with the same period in 2009. This was up compared with flat sales in December and -7% in November.
- 4WD unit tractor sales increased by 4% year-over-year vs. down 3% in December and down 8% in November.
- Combine sales were up 14% year-over-year in January compared with +6% in December and +3% in November. Total unit sales of combines last month were 633 units, up from 555 in January 2009.

Overall, Duigan expects ag equipment sales in 2010 to be roughly flat, driven by pre-buying, before weakening in 2011.

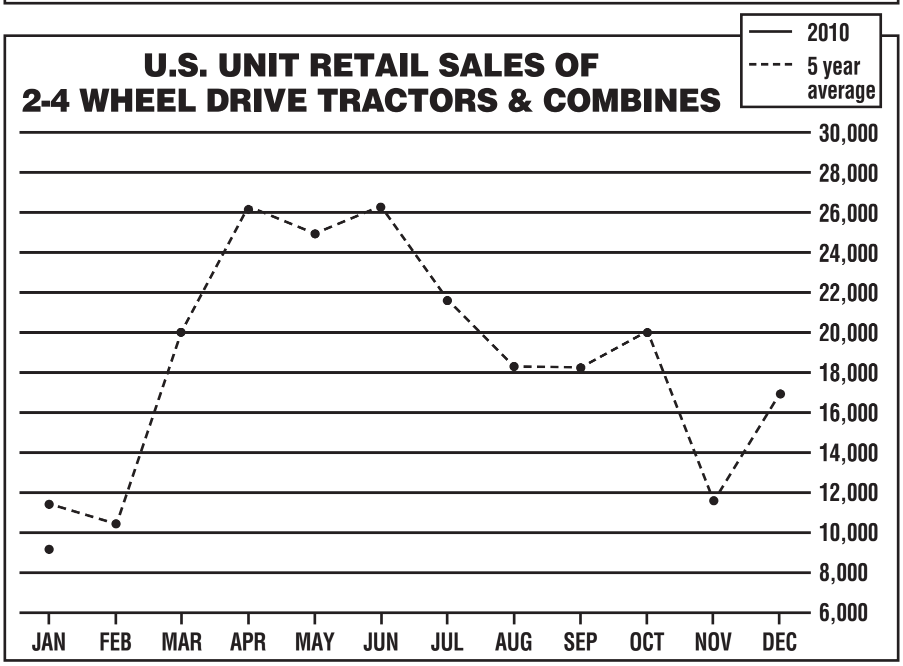
"We are expecting a modest pre-buy in 2010, ahead of the 2011 emission standards. As such, we expect North American tractor sales to be roughly flat (down 3%) in 2010 and decline 7% in 2011," Duigan says. **AEI**

## JANUARY U.S. UNIT RETAIL SALES

| Equipment | January 2010 | January 2009 | Percent Change | YTD 2010 | YTD 2009 | Percent Change | January 2010 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 3,225 | 3,261 | -1.1 | 3,225 | 3,261 | -1.1 | 44,685 |
| 40-100 HP | 2,811 | 3,064 | -8.3 | 2,811 | 3,064 | -8.3 | 24,395 |
| 100 HP Plus | 2,375 | 1,784 | 33.1 | 2,375 | 1,784 | 33.1 | 8,017 |
| **Total-2WD** | 8,411 | 8,109 | 3.7 | 8,411 | 8,109 | 3.7 | 77,097 |
| **Total-4WD** | 260 | 238 | 9.2 | 260 | 238 | 9.2 | 689 |
| **Total Tractors** | 8,671 | 8,347 | 3.9 | 8,671 | 8,347 | 3.9 | 77,786 |
| **SP Combines** | 581 | 508 | 14.4 | 581 | 508 | 14.4 | 812 |

## JANUARY CANADIAN UNIT RETAIL SALES

| Equipment | January 2010 | January 2009 | Percent Change | YTD 2010 | YTD 2009 | Percent Change | January 2010 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 462 | 481 | -4.0 | 462 | 481 | -4.0 | 6,017 |
| 40-100 HP | 370 | 368 | 0.5 | 370 | 368 | 0.5 | 2,894 |
| 100 HP Plus | 231 | 196 | 17.9 | 231 | 196 | 17.9 | 1,680 |
| **Total-2WD** | 1,063 | 1,045 | 1.7 | 1,063 | 1,045 | 1.7 | 10,591 |
| **Total-4WD** | 67 | 75 | -10.7 | 67 | 75 | -10.7 | 182 |
| **Total Tractors** | 1,130 | 1,120 | 0.9 | 1,130 | 1,120 | 0.9 | 10,773 |
| **SP Combines** | 52 | 47 | 10.6 | 52 | 47 | 10.6 | 172 |




—*Assn. of Equipment Manufacturers*

# CNH's 4Q Better Than Expected, Still 'Mixed' on Outlook

While CNH surprised many analysts with its fourth quarter and year-end earnings report on January 25, its financial outlook for 2010 remains hazy at best.

Overall, the company ended the last quarter of 2009 with total equipment revenues of $3.5 billion. While down 12% — –11% for Ag and –16% for CE — compared with the fourth quarter of '08, it easily beat analyst estimates.

"The beat vs. our model was from a better than expected contribution from financial services and a lower than expected loss at construction equipment," Henry Kirn, analyst for UBS, wrote in a note to investors.

"The company delivered total revenues of $3.51 billion, above our $3.10 billion and consensus $3.15 billion," Ann Duignan of JP Morgan said. "The beat was driven by higher revenues in the equipment business and higher financial services income.

"Importantly, the company delivered strong cash flow and now is net cash positive."

This is a major step forward for CNH after experiencing significant cash flow challenges earlier in the year, some of which resulted from the aggressiveness of its parent company, Fiat, in taking over operation of Chrysler Corp.

CNH Capital reported that it successfully completed 15 financing transactions in the fourth quarter totaling $4.5 billion, which generated $1.1 billion of incremental cash. "CNH Capital demonstrated that, even in the current environment, it has the ability to fund its operations, and do so on terms that allow it to be competitive in the wholesale and retail financing markets," the company said.

Ag equipment provided $2.63 billion in revenues (JP Morgan estimated $2.37 billion) and an operating profit of $167 million (vs. JPM's $142 million). Operating margins came in at 6.4% (vs. JPM's estimate of 6%).

***"Global farm machinery markets will decline 5-10% in 2010..."***

In terms of margins for ag machinery, CNH's declined to 6.4% from 11.7% in the fourth quarter of 2008. For the full year, operating margins for '09 came in at 6.7% vs. 10.6% for 2008.

**Going Into 2010.** Though the company didn't provide revenue or earnings outlook for 2010, it expects global agricultural equipment markets to decline 5-10% during the year ahead, and management expects improvements in profitability in 2010. CNH said it would provide more detail on its outlook for the year when it issues its first-quarter earnings report.

Harold Boyanovsky, CNH president and CEO, said, "Given the lack of visibility of macro conditions, we will continue to exercise discipline in areas over which we have control."

Overall, the company anticipates that global farm machinery markets will decline 5-10% in 2010.

By region, CNH expects North American tractors to be down 5-10%, and combines to slip by 10-15%.

It sees tractor sales in Western Europe to fall 10-15% and combines to be down 15-20%.

Tractor sales in Latin America are projected to be up ~5%, and combine sales to rise 5-10%.

**CNH Equipment Operations (U.S. $ in millions)**

| | Quarter Ended | | | Year Ended | | |
|---|---|---|---|---|---|---|
| | 12/31/09 | 12/31/08 | Change | 12/31/09 | 12/31/08 | Change |
| **Operating Profit** | | | | | | |
| Ag Equipment | $167 | $346 | (51.7%) | $712 | $1,371 | (48.1%) |
| Const. Equipment | (66) | (47) | 40.4% | (339) | 116 | (392.2%) |
| Total Operating Profit | $101 | $299 | (66.2%) | $373 | $1,487 | (74.9%) |
| **Operating Margin** | | | | | | |
| Ag Equipment | 6.4% | 11.7% | (5.3 pts) | 6.7% | 10.6% | (3.9 pts) |
| Const. Equipment | (11.2%) | (6.8%) | (4.4 pts) | (16.0% | 2.6% | (18.6 pts) |
| Total Operating Margin | 3.1% | 8.2% | (5.1 pts) | 2.9% | 8.6% | (5.7 pts) |
| Gross Profit | $523 | $723 | (28.6%) | $1,921 | $3,312 | (42.0%) |
| Gross Margin | 16.3% | 20.0% | (3.7 pts) | 15.0% | 19.1% | (4.1 pts) |



# Mahindra's January Tractor Sales Rise 73%

Indian tractor maker, Mahindra & Mahindra's Farm Equipment Sector reports that its total tractor sales (domestic + exports) for January rose 73%, to 16,879 units vs. 9,759 in January 2009.

The Mumbai-based manufacturer said that domestic sales of its equipment increased by 69% with 15,925 units sold compared with 9,438 in January 2009.

Exports in January came in at 954 units, compared with 321 units during the same period last year, an increase of 197%.

Year-to-date domestic sales are up 47% in India to137,453 units vs. 93,599 units for the same period last year.

The company's year-over-year sales (domestic + exports) for 2009 rose by 44% to 144,549 units, which compared with 100,119 units last year.