From the editors of *Farm Equipment...*

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

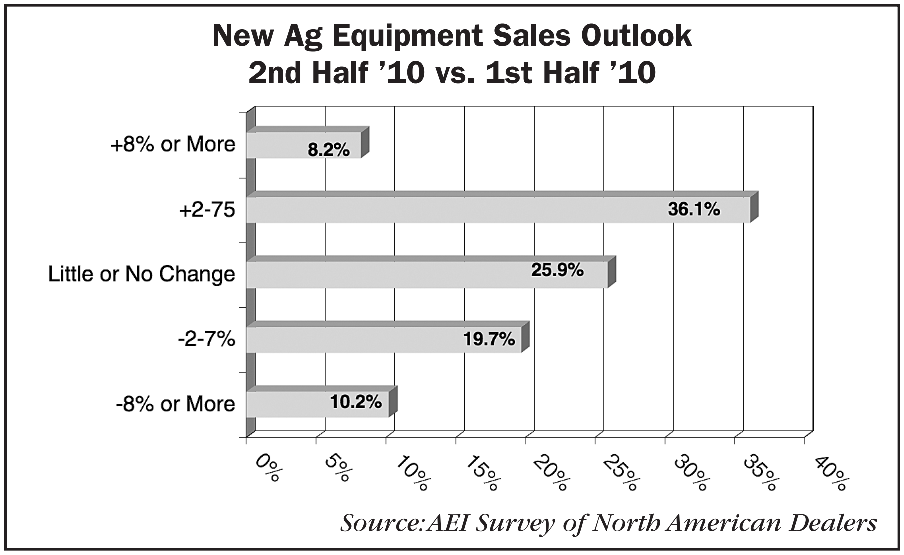
May 15, 2010
Vol. 17, Issue 1

- •Potential of Biomass
- •Ag at Tipping Point
- •Great Plains Expands

## Dealers See Steady Going for Remainder of 2010

As North American farm equipment dealers turn the corner and look toward the second half of 2010, most expect ag machinery sales to remain solid through the remainder of the year. But those dealers in areas heavily reliant on the dairy industry continue to see difficult, if not desperate, sledding ahead.

In an e-mail survey conducted by *Ag Equipment Intelligence* May 5-7, 44.3% of the 160 dealers who responded to the poll are forecasting sales in the second half of the year will outpace levels experienced through the first 6 months of 2010 — 36.1% project sales will increase by 2-7% and 8.2% by 8% or more.




Nearly 26% of the dealers expect little or no change in the unit sales of farm equipment during the second half of the year vs. the first half. Slightly less than 30% (29.9%) believe sales will be slower July through December compared with January through June of this year. Of those who anticipate that sales will decline in the second half of the year, 19.7% see a falloff of 2-7% and 10.2% are forecasting a sales drop of 8% or more.

For all of 2010, 47.3% of dealers anticipate machinery sales to exceed 2009 unit sales, with 31.5% projecting increases of 2-7% and 15.8% forecasting sales of +8% or more. About

*Continued on page 2*

## Canadian Dealerships Show Mixed Results in 1Q

The two publicly held Canadian dealerships — Cervus Equipment Corp. ("CVL" – John Deere) and Rocky Mountain Dealerships ("RME" – Case IH & New Holland) — issued first-quarter earnings reports on May 11. According to Raymond James Ltd. analyst Ben Cherniavsky, one hit the mark while the other didn't live up to expectations.

**Cervus Equipment**. "Cervus reported consolidated revenues of $67.2 million, below our estimate of $78.3 million and marginally better than last year's $66.3 million," Cherniavsky said. "Lower than expected ag results were the culprit, falling $8.2 million or 16% year-over-year."

The analyst says that several factors contributed to the year-over-year decline including a tough year-over-year comparable stemming from an abnormally active early order program in 2008. This resulted in first-quarter 2009 equipment deliveries vs. the typical second and third quarter delivery schedule.

He also listed Cervus' more conservative trade-in policy, due to exchange rate concerns, that effectively dampened new equipment sales. Farmers also postponed purchases in the quarter.

"Encouragingly, despite lower volumes, consolidated gross margin improved 290 bps year-over-year to 22.7% due to labor efficiencies and the addition of the A.R Williams business, which is heavily weighted towards product support," Cherniavsky said.

"However, margin gains were not enough to offset the volume declines and higher than expected SG&A, which resulted from the addition of the A.R. Williams and Ranchers Supply acquisitions."

Reported EBIT of $0.7 million fell short of the analyst's $1.2 million estimate and 2009's first quarter of $1.1 million.

Despite the soft first quarter results, the analyst says that he main-

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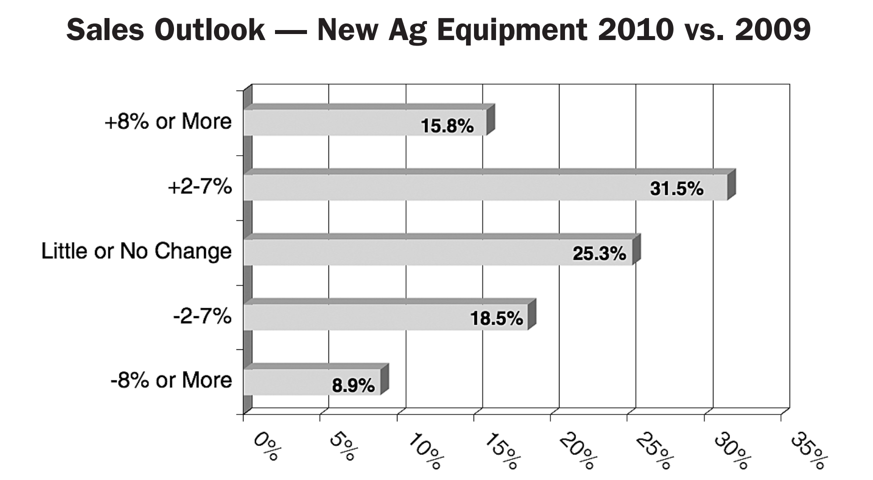


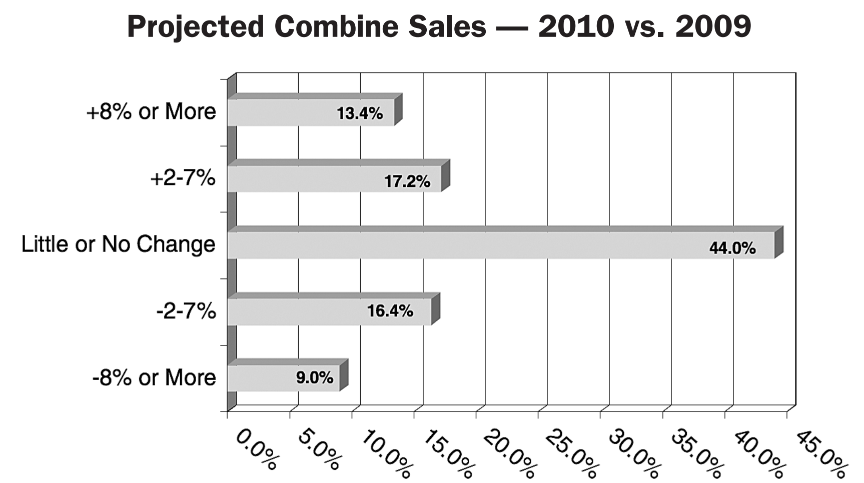


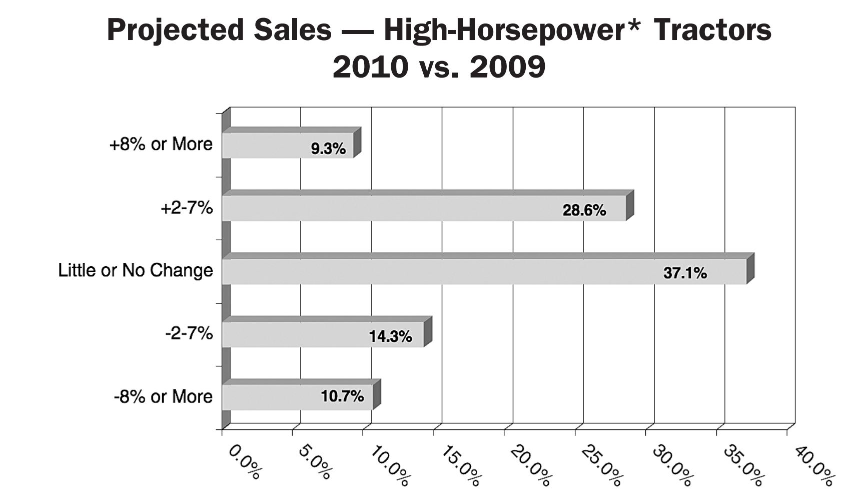


*>100HP *Source: AEI Survey of North American Dealers*

one-quarter of the dealers (25.3%) see 2010 sales coming in at about the same level that they saw for all of 2009.

Of the 27% who are anticipating that current-year unit sales will come in lower when compared with the previous 12-month period, 18.5% see sales dropping off 2-7% and 8.9% see unit sales tailing off by 8% or more.

**Improving Tractor Sales.** A majority of the dealers polled also see overall tractor sales improving, both for the entire year and in the second half of 2010 vs. the first 6 months of the year.

Nearly 38% of the dealers expect unit sales of high-horsepower tractors (>100 HP) this year to be better than all of 2009, with 28.6% forecasting growth of 2-7% and 9.3% expecting increases of 8% or more. Slightly over 37% of the ag machinery retailers see little change in unit sales in 2010 compared with all of last year.

That leaves a full 25% of responding dealers who see sales of high-horsepower tractors slower throughout the current 12-month period, with 14.3% projecting sales will be off between 2-7%, and 10.7% forecasting a dropoff of 8% or more.

Similar results were seen for sales of lower-horsepower tractors (<100 HP) during the current year. Overall, 37.3% of the dealers expect sales improve in 2010 compared with the previous year. Of those, 31% see sales increasing by 2-7%, and 6.3% anticipating unit sales growing 8% of more. Nearly 41% are forecasting sales levels to come in at about the same levels they saw last year.

Nearly 22% of the dealers who participated in the mid-year survey are projecting unit sales of lower-horsepower tractors to come in lower this year compared with 2009. Of those, 16.9% see sales slowing between 2-7% and less than 5% are

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tains a favorable long-term outlook for Cervus as the construction markets improve and with the company's attractive 6% yield.

Cervus currently owns and operates 30 ag, construction and material handling equipment dealership locations in Alberta, Saskatchewan and Manitoba.

**Rocky Mountain Dealerships.** RME reported revenues of $120.5, which the analyst says "came in almost exactly in-line with our expectations." This represented a year-over-year increase of 12.5% with new equipment sales (+30%) showing particular strength "due to solid organic growth and market share gains on the ag side of the business."

Sales of construction equipment remain a drag on RME's earnings, dropping 31%. Despite this, the company reports that March sales were flat and the light-equipment segment has begun showing year-over-year gains.

Gross margin was stronger than expected, coming in at 16% vs. 15% last year. "Overall, there were no big surprises in the quarter and the results reinforce our positive view on the stock. We believe the company will continue to operate like a well oiled machine and execute their stated consolidation strategy," Cherniavsky says.

He includes several positive factors that should contribute to a continuing strong performance by RME. These included a good start to he seeding season with favorable weather conditions, the addition of a New Holland location in Edmonton, and improved industry outlooks from OEMs on the ag side of the business.

Rocky Mountain owns and operates 25 Case IH and New Holland ag dealerships, and Case Construction dealerships throughout Alberta, Saskatchewan and Manitoba.

### Publicly Traded North American Farm Equipment Dealership Groups

| | P/E | | | EV/EBITA | | |
|---|---|---|---|---|---|---|
| **Company Name** | **2009A** | **2010E** | **2011E** | **2009A** | **2010E** | **2011E** |
| Cervus Equipment Corp (CVL) | 14.5 | 9.5 | 8.2 | 9.2 | 6.6 | 5.7 |
| Rocky Mountain Dealerships (RME) | 9.0 | 7.1 | 5.8 | 6.9 | 4.8 | 3.9 |
| Titan Machinery* (TITN) | 16.0 | 14.6 | 12.3 | 11.3 | 11.9 | 10.8 |

***Notes:*** *Cervus & Rocky Mountain values shown in 000s CAD; Titan values shown in 000s USD*

**Titan Machinery, headquartered in Fargo, N.D., currently owns and operates a network of 72 dealerships, including 3 outlet stores, in 7 states in the upper Midwest.*

*Source: Company Reports & Raymond James Ltd.*

# It's Still a Tough Go for Some Dealers

In following up on our Mid-Year Business Trends survey (see p. 1), *Ag Equipment Intelligence* editors spoke with several dealers. While most are still experiencing steady, solid sales, those who are heavily reliant on dairy and milk producers continue to struggle. This was the case from New England to the West Coast.

One Vermont dealer told us, "If it weren't for our lawn and turf equipment, and replacement parts, we'd have a tough time keeping the doors open. But I'm seeing some encouraging signs. We might be turning the corner."

On the other hand, a Nevada dealer said, "2009 was a really bad year. We were down 66% from 2008 and 2010 has not improved. In fact, so far this year, our numbers are worse than 2009.

"We are tied to the dairy industry way too close. But all aspects of the economy here are just as flat. I hope something breaks loose pretty soon as our survival depends on it."

### FARM MACHINERY TICKER (AS OF 5/11/2010)

| Mfr. | Symbol | 5/11/10 Price | 4/12/10 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|---|---|---|---|---|---|---|---|---|
| **AGCO** | AGCO | $33.86 | $38.99 | $40.29 | $24.09 | 28.72 | 1.2 M | 3.13 B |
| **Alamo** | ALG | $24.69 | $20.70 | $24.69 | $9.77 | 14.97 | 62,116 | 290.01 M |
| **Art's Way** | ARTW | $5.79 | $5.99 | $7.12 | $3.42 | 29.10 | 3,130 | 23.10 M |
| **Caterpillar** | CAT | $66.07 | $66.73 | $72.83 | $30.01 | 46.66 | 7.48 M | 41.48 B |
| **CNH** | CNH | $29.43 | $33.09 | $33.45 | $11.51 | NA | 344,968 | 7.00 B |
| **Deere** | DE | $59.46 | $62.04 | $63.68 | $34.90 | 27.71 | 4.60 M | 25.21 B |
| **Kubota** | KUB | $41.99 | $46.17 | $51.08 | $31.11 | 752.51 | 27,695 | 10.68B |
| **Titan Machinery** | TITN | $14.00 | $14.55 | $17.00 | $9.81 | 15.98 | 56,485 | 248.98M |

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expecting a dropoff of 8% or more.

**Flat Combine Sales.** Overall, 44% of dealers say there will be little or no change in the level of combine sales in 2010 vs. 2009. Of the 30.6% that expect sales in the coming year to be higher this year, 17.2% believe they will improve 2-7%, and 13.4% expect they will increase by 8% or more.

Of the remaining 25.4% who are expecting combine sales to decline in 2010, 16.4% see sales tailing off between 2-7% and 9% expect they will decrease by 8% or more throughout all of 2010.

**Used Equipment Concerns**. As the sale of new farm machinery maintains a brisk pace, concerns about growing used equipment inventories have begun to creep up with dealers. Asked what concerns them most going into the second half of 2010, comments like "used equipment concerns," "used inventory levels" and "used combines" outweighed all other worries listed by the dealers.

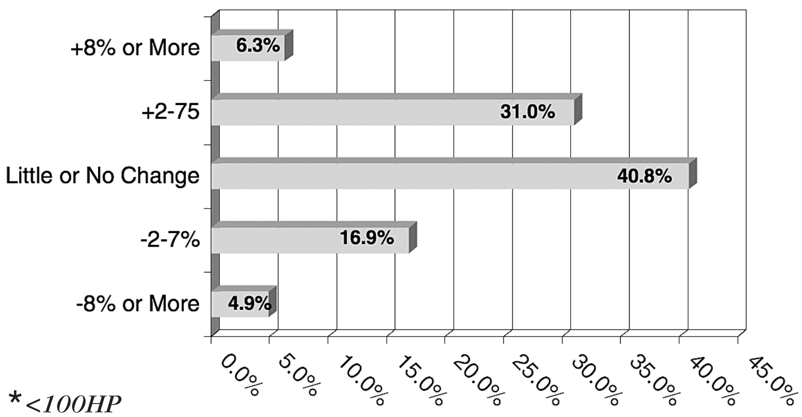
In terms of sales, nearly half — 46.3% — of the dealers taking part in *AEI's* mid-year business survey expect to move more used equipment this year vs. last year. Nearly 29% of these expect used machinery sales to move up between 2-7% and 17.7% forecast gains of 8% or more. A third, or 33.3%, of the retailers anticipate little or no change in used equipment sales in 2010 compared with the previous year.

Of the 20.4% who see sales of used equipment falling off this year, 14.3% anticipate a drop off of 2-75, while 6.1% are forecasting declines of 8% or more.

Current used equipment inventories are another matter, though. More than 44% of dealers say their current level of used machinery is higher than it was last year at this time. Of these, 17.7% indicate their used equipment levels are 8% or higher than last year, and 26.5% say it's between 2-7% higher currently compared with the same time in 2009.

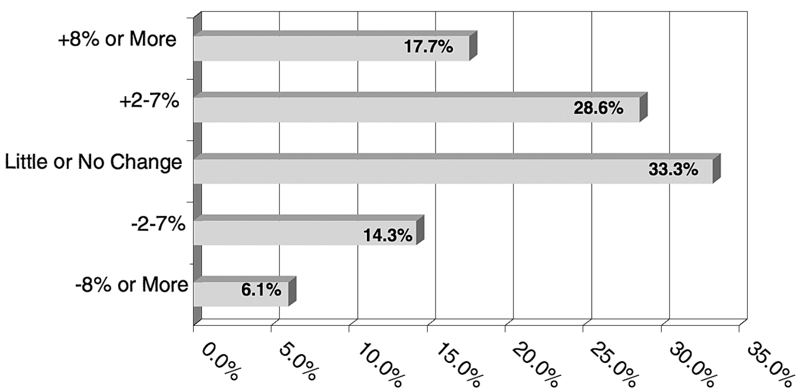
While about 26% of the dealers report inventories of used equipment are at about the same level as last year, nearly 30% indicate the amount of used machinery on their lots is at a lower level this year compared with last year. **AEI**

**Projected Low-Horsepower* Tractor Sales 2010 vs. 2009**

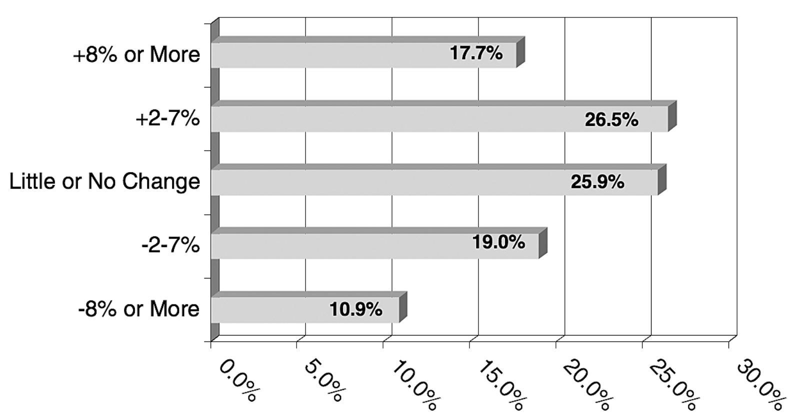



**<100HP*

**Projected Sales — Used Equipment 2010 vs. 2009**




**Current Used Equipment Inventory 2010 vs. 2009**

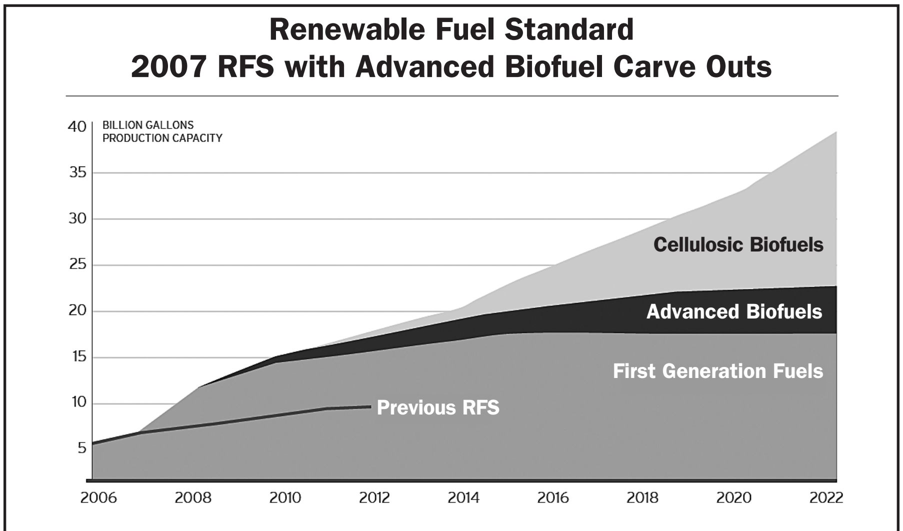



*Source: AEI Survey of North American Dealers*

# Cellulosic Ethanol Could be a Boon to Dealers, Manufacturers

The solid sales performance many farm equipment dealers and manufacturers have experienced during the past 3 years has been driven in large part by the growing use of corn ethanol as a biofuel. Now, Poet LLC, the world's largest producer of ethanol is giving the industry another "heads up" that the next major leap forward in the development of biofuels is on the horizon.

"Cellulosic ethanol technology is nearing commercial viability," Mike Roth, Poet's director of biomass, told *Ag Equipment Intelligence* in an exclusive interview.




*Source: EPA*

The development of cellulosic ethanol is expected to drive another phase of ag machinery growth. As an economical biofuel, cellulosic ethanol will not only bring with it the need for additional, specially designed farm machinery, but it will utilize corn cobs and other ag residue that will provide farmers with an additional income stream.

Oak Ridge National Laboratory has estimated that there is more than a billion tons of biomass available that could be converted into 80-100 billion gallons of ethanol. Poet will pay $30-60 per ton of biomass, so the revenue opportunities for farmers are apparent.

According to Roth, Poet is getting ready to launch Project Liberty, a 25-million gallon per year cellulosic ethanol plant that will be co-located adjacent to its Emmetsburg, Iowa, facility.

"That plant has been operating for 5 years producing ethanol from corn starch. We're now at the stage of educating the farmers who are already bringing corn to the plant on how they can also bring corn cobs to the facility," Roth says.

Therein lies the opportunity for equipment builders and dealers.

**Mounting Ag Residue.** Poet's Project Liberty is designed to produce cellulosic ethanol from corncobs, husks and leaves.

Roth estimates that harvesting 180 bushels of corn per acre results in approximately 4 tons of dry corn residue. Removing a maximum of 25% of residue will yield about 1 ton per acre of dry material for producing ethanol.

"We're asking farmers to pick up no more than 1 ton per acre," Roth says. "All of the work done so far indicates that this is the correct amount to ensure erosion control and that the nutrient supply is adequate for the soil."

As corn yields continue to increase — Monsanto is projecting it will reach 300 bushels per acre by 2030 — the volume of field residue will also pile up.

**Equipment Needs.** With the technology in place and conversion costs increasingly competitive, Roth sees the next major challenge in extending production of cellulosic ethanol in gathering and transporting of the cellulosic feedstock.

Specifically, Poet is looking at 3 sources of feedstock.

• **Clean Cobs:** These are loose corncobs that don't hit the ground. "This will requires a cart that's pulled behind the combine to collect all of the material coming off the combine and separates some of the chaff — leaves and husks — so we end up with a pretty clean corn cob," Roth says.

• **First-Pass Bales:** This will require a baler that is pulled by the combine and it takes everything coming from the combine, bales it and drops it on the ground.

• **Second-Pass Bales:** Gathering this feedstock involves traditional baling. The combine chopper is turned off, and instead of spreading the corn residue out across the field, it would be laid down in windrows behind the combine. A conventional round or square baler then picks up the windrow.

Collecting the materials in one pass will require some special equipment, according to Roth.

"The equipment is still in development, but the farmer will probably need a larger combine with certain horsepower requirements. Some of the combine manufacturers are a little wary about the stress that pulling a cart or baler behind the combine will put on the braking and cooling systems, so development is ongoing," he says.

For farmers without large combines, Roth says, second-pass baling could be appropriate. "Farmers with smaller acreages can also participate by using a standard baler and making another trip through the field."

**Just a Start.** Roth says that Project Liberty is just the start in the long-term plan for producing cellulosic ethanol. "It's 25 million gallons of ethanol that will use 300,000 tons of corncobs. But it is only the first one.

"We have very big plans to produce and license the technology for 3.5 billion gallons of cellulosic and high-tech biofuel," he says. **AEI**

# Despite Exchange Rate, Ag Growth Satisfied with 1Q Results

Ag Growth International (TSX: AFN) reported revenues of $51.6 million and EBITDA of $12.4 million for the first quarter of 2010 vs. $55.3 million and EBITDA of $11 million for the same period of 2009. On May 13, the Winnipeg-based manufacturer of portable and stationary grain handling, storage and conditioning equipment issued its first-quarter earnings for the quarter ended March 31.

The company attributes the falloff in sales revenue to the stronger Canadian dollar. "Had the exchange rates in both periods been the same, reported revenues would have increased over 2009," the company said. "As expected the impact of the stronger Canadian dollar was largely mitigated by gains on the company's foreign exchange contracts. Excluding the gain on foreign exchange, EBITDA in 2010 was $10.3 million compared to $13 million in 2009." Ag Growth's net earnings were $6.4 million vs. $10.1 million in 2009.

The strong operational results were in line with management expectations. The positive agricultural fundamentals experienced in 2009, including the impact of successive large harvests, continued into 2010, the company said.

**Results & Outlook.** "We are very pleased to report a strong first quarter," said Rob Stenson, Ag Growth CEO. "The high levels of demand experienced in 2009 have been sustained in the first quarter of 2010, as the company's distribution network replenishes inventory levels after a record 2009.

"U.S. corn and soybean harvest and improving macroeconomic factors positively impacted demand for commercial handling equipment. Our outlook for the balance of 2010 remains positive. Order backlogs for portable equipment are at levels consistent with 2009 and the backorders for commercial equipment, both domestically and internationally, are significantly higher than the prior year."

The company also expects the April 29 acquisition of Mepu Oy, a manufacturer of portable and stationary grain drying systems based in Ylane, Finland, to further increase Ag Growth's penetration into international markets. 'We continue to pursue organic growth and acquisition opportunities to deploy the substantial cash reserves derived from our debenture offering," Stenson said.

The company also announced cash dividends of $0.17 per common share for the months of June and July 2010. AEI

# Great Plains Extends Global Reach with Acquisition of Simba Int'l

Great Plains Manufacturing, one of the largest non-tractor, privately held farm implement makers in the U.S., is firmly embedding itself in the agricultural market of the U.K. and European Union with the purchase of Simba International of Lincolnshire, U.K.

Great Plains manufacturers more than 60 models of planting, seeding, tillage and spraying equipment, as well as a wide range of landscaping equipment, through its Land Pride division, operates 8 manufacturing plants throughout central Kansas, including its headquarters in Salina, Kan.

Simba has been manufacturing a broad range of tillage equipment in England with emphasis on implement for high-powered tractors (300-plus horsepower) since 1976 and has an extensive network of distributors throughout Western Europe.

"We've been doing quite a bit in Eastern and Central Europe but not very much in Western Europe," Roy Applequist, president and owner of Great Plains, told *Ag Equipment Intelligence.*

He says that he expects both companies to complement each other in expanding their market reach.

"Based in England, Simba will strengthen our distribution network throughout the European Union. While they haven't done too much in Russia or the Ukraine where we are pretty well situated, he says, "they'll open new channels for us in the EU and we'll market some of their products in Russia and the Ukraine."

Applequist says Great Plains may also bring some Simba products to North America, but it's too early to tell if they'll require modification for use.

**Growth Opportunities.** Great Plains expects its biggest opportunities with the acquisition to come from Simba's established distribution network, particularly for the seeding equipment. Applequist says the company also has an engineering department on the ground in Europe.

"It'll be nice to have people there who are already designing equipment to European standards. They're well acquainted with the nuances of the market and special issues they have there."

Great Plains will retain 86 of Simba's 87 employees. "We'll continue manufacturing there. The managing director will be retiring, but everyone else has been retained," Applequist says. "There will be very few changes in how operations work there in England."

Daniel Rauchholz, president of Great Plains International, will oversee Simba operations as he has for all the company's export activities for both Land Pride and Great Plains. Guy Leversha has been named managing director of Simba.

**Simba's Strenths.** In addition to its extensive distribution network throughout England and the European continent, Simba has also introduced significant tillage innovations in recent years.

In 2007, the company rolled out the SL X-Press Cultivator for reduced tillage. Since then, Simba has sold nearly 500 of the units in less than 18 months. Half of them were sold domestically in the U.K. and the other half were exported. This may offer potential for marketing in North America.

According to its web site, this resulted in Simba doubling its annual sales to $40 million in 2008 from about $19.5 million in 2006. AEI

## Despite 53% Drop in 2009, Deutz Will Maintain R&D Spending

Last year's collapse in construction machine sales may have caused diesel engine maker Deutz to fall deeper into the red, but the company is determined to maintain its R&D spend in preparation for a market recovery.

Sales of compact engines for plant and agricultural machinery dropped 53% on a buoyant 2008 figure to 102,420 units. Revenues from farm tractor, telehandler and loader engines, which account for about a quarter of the total, were down 16% at the equivalent of $200 million at current rates of exchange.

In the company's customized engines segment, which sold 15,500 engines, revenue from ag machinery installations representing 3% of the total was down 24% to $9.5 million.

Nonetheless, double-digit expenditure on R&D projects was maintained and capital expenditure on future technologies continued. Deutz managers confidently anticipate a noticeable recovery through 2010 now that manufacturer and dealer stocks are more in line with demand.

Moreover, they are pressing ahead with a development program for two new engines of less than 4 litres capacity. The Deutz 3.62 litre 2010 swept volume unit will cover the power range 65-115 horsepower, while the yet-to-be-named Deutz 20XX with 2.9 litres will develop 35-75 horsepower. Both are 4-cylinder inline liquid-cooled power units.

In light of the difficult trading conditions, Deutz has accelerated its restructuring program. This is aimed at saving more than $45 million in annual costs, lowering the break-even point to 125,000 units and reversing last year's $159 million net loss. AEI

## Implement Maker Sees 'Flat' Sales for Remainder of '10

Norway's Kverneland Group — the world's second-largest implement manufacturer by sales revenues — continues to tackle costs in anticipation of a flat 2010 market for its products.

"With a lower order book than normal at the start of the year, combined with uncertainty about when the market will improve, Kverneland Group has prepared for a challenging environment," says CEO Ingvald Loyning. "Nevertheless, the trend in key market indicators is positive, which is confirmed in recent order intake, and we expect net sales this year at least in line or above 2009 levels."

Last year, Kverneland recorded a near-30% drop in sales revenues, from the equivalent of $770 million in 2008 to just over $541 million. This is 17% lower than in 2007.

While Kverneland 2009 sales in America dropped a painful 44% to $22 million and now represents 4% of group revenues (down 1%), the tailspin in Kverneland's major European markets had a bigger impact on the overall picture: France down 39%, the UK 23% and Germany 22%, with the previously racing markets of Central and Eastern Europe and the CIS states dropping 28%. Sales in Russia have ground to an almost complete halt.

One silver lining to this particular cloud, however, is that a substantial decrease in operating expenses resulted in an improvement in margins. As a result, net profit came in at $52 million vs. a loss of $2.7 million the year before.

While watching its costs and refinancing long-term loans with market adjusted terms and 2 years' extended maturity, Kverneland is pressing ahead with plans to replace the hay product lines it sold to Kuhn last year — for which a net gain of $97 million was booked.

"We will continue to distribute the whole range of balers and other products from the Geldrop factory until September 1," Loyning says. "We are developing a sustainable strategy to continue supplying balers and related products after this deadline and have already acquired new products for this sector [see *AEI* March 2010] in the first step of an ambitious strategy to expand our forage harvesting range." AEI

### Analyst Offers Observations from Iowa Dealer Visits

In the past week, UBS machinery analyst Henry Kirn visited with 12 farm equipment dealers in Iowa. In a May 13 note to investors, he says that dealers generally reported year-to-date sales and order books were down moderately. "While dealers saw farm profitability as healthy at current commodity prices, most also saw lower, but still reasonably good, commodity prices and strong equipment purchases over the last few years as a headwind to equipment demand in 2010," he says.

Kirn also offered the following observations based on his dealer visits.

**New & Used Equipment Inventories**

- Dealers report low new equipment inventory levels and solid pricing power as OEM inventory strategies are working.
- Dealers were mixed on used equipment inventories as used tractor availability remains tight, but dealers were concerned that recent strong new combine sales could lead to an excess of, and pressure pricing for, used combines.

**Tier IV Engines & Pre-Buys**

- Most dealers expect some customers to buy 2010 standard tractors and combines to avoid a potential additional $15-20K for a Tier IV 2011 engine. Deere dealers believe remaining 2010 Tier III build slots were sold out while CNH and AGCO dealers saw somewhat better availability. No dealer expected major market share shifts in 2010 due to Tier III availability.
- CNH dealers were optimistic that improved performance of Tier IV SCR-based engines could allow CNH to take market share in 2011 and beyond.

**New Equipment Pricing**

- Dealers reported that this year's OEM price increases of 2%-3% for new equipment are sticking.
- Most dealers acknowledged that normal discounting programs are in place. Several noted that if either Deere or CNH offers a discount program, the other follows in short order.
- They characterize the current competitive environment as one in which the major players were not trying to gain share through above-normal levels of discounting.

# Leon's Handling of Dealer Contracts Being Probed

Leon's Manufacturing Co., a Canadian maker of material handling, livestock feeding and fertilizing equipment, is facing an investigation by the province of Alberta over the company's handling of its contracts with equipment dealers.

Leon's also faces a court action taken by another dealership over similar contract issues.

Company president, John Malinowski, citing manufacturer-dealer confidentiality said he was unable to comment or publicly discuss such financial matters. He added, "Any matters of a legal nature or relating to legislative matters are all handled through company attorneys, as buy-back obligations of the manufacturer and requirements from dealer vary from jurisdiction to jurisdiction."

Grady Owen, senior investigation officer for the Alberta Regulatory Services Division's inspection and investigation branch, confirmed to *Ag Equipment Intelligence* that he's investigating a complaint about Leon's that was forwarded by the Alberta Farm Implement Board.

The complaint stems from Kasha Farm Supplies' termination of its dealer contract with Leon's. According to records obtained by *AEI*, Kasha, a dealership in Eckville, Alberta, accepted inventory from Leon's on a "never come due, never pay interest" incentive offered by a Leon's representative.

Kasha's dealer principal, Brian Kasha, complained his business was later charged interest on the inventory, and months of discussion between himself and Leon's produced no resolution, prompting Kasha to cancel its contract.

Alberta's Farm Implement Act outlines buy-back provisions for unused equipment and parts in cases involving contract terminations. The act requires manufacturers to take action on an equipment dealer's termination request within 90 days.

Owen told *AEI* he's just entering the "startup" phase of the investigation into Kasha's situation with Leon's, but the probe may extend to other dealerships if warranted. Owen said the investigation could lead to many different roads, including prosecution, but the outcome "depends on the facts that are presented."

On January 4, Miller Farm Equipment of Moosomin, Saskatchewan, filed a "statement of claim" against Leon's, alleging the company owed Miller more than $93,000. The claim reflects the cost of inventory and finance charges stemming from three new manure spreaders and related parts on Miller's lot.

***"Dealers say they accepted equipment on a 'no interest, no come due basis' but the offer was not honored..."***

The claim states Miller terminated its contract with Leon's in January 2008, but the spreaders and unused parts were never repurchased as required by law.

John Schmeiser, executive vice president of the Canada West Equipment Dealers Assn., said Miller contacted Leon's in November 2007 about canceling its contract, but the spreaders were still in the dealership's possession as of March 2010.

In a response filed by its attorney, Leon's denied all of the allegations, saying Miller didn't meet the definition of a dealership, missed procedural deadlines in the Act and inflated the values of the equipment in question.

Schmeiser said Miller was sold in June 2008 and the dealer filed a lawsuit against Leon's in January 2009 over the inventory. That dealer passed away in February, but the dealership's former partners are continuing the lawsuit.

CWEDA has fielded calls from at least 30 dealers in the past 2 years about contract and inventory issues with Leon's, located in Yorkton, Saskatchewan. Schmeiser said he's helped resolve a handful of situations, "but I can't recall getting one of them resolved very quickly."

Schmeiser said most of the dealers complained that they accepted inventory from Leon's because of the "no interest, no come due" incentive, but the promise wasn't being honored.

Leon's often promised to pay the interest on the equipment or move it to another dealership if it didn't sell, but the company usually didn't follow through, Schmeiser said. "In some cases dealers were required to pay interest rather quickly."

When asked by *AEI* how Leon's explained the alleged broken promises, Schmeiser said he was told by Malinowski that he never authorized "no interest, never come due" incentives, but a salesman working for Leon's could have been responsible.

Dealers in the region are skeptical, Schmeiser said, because that salesman's replacement continued making the special offers. He added Malinowski "tried to be as accommodating as possible" about the contract issues, but dealers have been disappointed with the company's response.

"Leon's has a long history in doing business in western Canada. They're not a fly-by-night company. When a rep comes in and says they've got this new manure spreader with these incentives, the dealers believed it," Schmeiser said. "All these dealers want now is for the inventory to be gone and to be reimbursed." **AEI**

## Chinese Market for Tractors 'Saturated'

Asia's largest tractor maker, Kubota Corp., expects machinery sales in China to slow this year as the market is becoming saturated, President Yasuo Masumoto said, according to a May 11 Bloomberg report.

Chinese sales of machinery such as tractors and combines may rise 29% to 51.6 billion yen ($557 million) in the year ending March 2011, Masumoto said at a news conference in Osaka, where the company is based. That compares with a 48% increase to 40 billion yen in the year just ended.

"Sales growth in China is slowing compared with what we had been expecting last year," Masumoto said.

## Tiremaker Sees Sales of Small and Midsize Equipment Improving in '12

Improving sales of big farm tires should help lift Titan International sales in the sector, which in the company's first quarter was down about 19% compared with 2009. The slide contributed to net sales of $196.4 million compared with $232.6 million the year before.

"The first quarter started slow but has improved each month, with the big farm tire segment leading the way," says Titan Chairman and CEO Maurice Taylor. "This segment should remain strong through the second quarter before slowing as normal in the third and picking up again in the final quarter of the year.

"Midsize and small farm product demand is still slow and we do not see any growth in that segment until 2012," he added.

Titan is developing its presence in the big ag tire segment, working with farmers last year to develop new tires and wheels for large row-crop and four-wheel drive tractors.

"We will also be releasing new grain cart tires and wheels that will not only carry greater loads with less soil compaction but also have less rolling resistance," said Taylor. "We are doing the same for combines. To put it simply, we are moving."

Whether Titan is also moving on plans to establish a presence in Europe remains to be seen. Last September, Titan signed a non-binding letter of intent with Goodyear Tire & Rubber Co. to purchase certain farm tire assets there, including the Amiens North factory of Goodyear Dunlop Tires France.

Titan bought Goodyear's North American farm tire assets in 2005 for $100 million.

Earlier this year, Taylor emphasized to analysts that the deal would have to be right and, in part, was contingent on Goodyear Dunlop finalizing a social plan with workers due to lose their jobs at the Amiens plant when passenger car and light truck tire production is brought to an end.

In early March, Titan stockholders approved a doubling of Titan's authorized shares of common stock. At the time, Taylor said, "Titan thanks its stockholders for this vote of confidence through the increase in authorized shares, which will allow the company additional flexibility for possible business opportunities." AEI

## Early '10 Tractor Sales Signal SDF Comeback

Italy's Same Deutz-Fahr Group suffered more than other leading tractor manufacturers from the correction in the agricultural equipment market last year. Sales revenues slumped 28% to $1.13 billion from $1.56 billion in 2008 at current exchange rates.

It was the group's lowest sales revenue figure since 2003, when SDF recorded $1.05 billion and follows several years of steady growth.

Earnings before income tax (EBIT) fell even more sharply — down almost 88% to $8.38 million from $69.6 million in 2008 when the group supplied almost 32,500 tractors. A 17% increase in parts sales last year was the only positive consequence of prevailing market conditions.

Actions taken to cut costs have resulted in a more rational and efficient organization ready for the market recovery, says SDF Group CEO Massimo Bordi.

Thanks to the company's streamlining he expects to see an improvement in company results this year despite forecasting only a modest recovery in global sales.

Early 2010 figures have buoyed Bordi's optimism as orders for SDF's Deutz-Fahr tractors and harvest machinery, and SAME, Lamborghini and Hürlimann brand tractors were up 12% to the end of March compared with 2009. Turnover was up by the same amount and March sales took the company to the break-even point.

Bordi says this is an encouraging sign that confirms his strategy implemented in 2009 is providing a solid response to the economic crisis in the sector.

The challenge now, he adds, is to get a decent return from the group's significant investments in new markets. SDF is now operating a new tractor assembly plant in China, and Russia, where in addition to an OEM supply deal, Deutz-Fahr tractors are being assembled, albeit on a relatively small scale.

Sales in India last year registered an increase of 27%, in part because of the launch of the Deutz-Fahr line there.

Identified as the group's premium and global brand, Deutz-Fahr accounted for 60% of group tractor sales revenues in 2008. Its share of 2009 sales has yet to be revealed. AEI

### Large Equipment Dealer Group Listings Revised

| Number of Ag Stores | Large Dealer Owner Groups | Deere | AGCO Brands | Case IH | New Holland | Kubota |
|---|---|---|---|---|---|---|
| >15 | 13 | 8 | 3 | 2 | 1 | |
| 10-15 | 34 | 15 | 15 | 2 | 1 | |
| 7-9 | 47 | 25 | 7 | 9 | 3 | 3 |
| 5-6 | 73 | 42 | 8 | 20 | 10 | 9 |
| TOTAL | 167 | 90 | 33 | 33 | 15 | 12 |

**Since we published the updated summary table and breakdown of larger farm equipment dealer groups in North America in the April 2010 issue of *Ag Equipment Intelligence*, we've heard from other dealers and turned up some additional information on groups that operate 5 or more store locations. Here's our revised summary as of May 14. We now estimate that 167 farm equipment ownership groups operate 5 or more store locations in North America. As indicated, figures in this summary don't necessarily total across as several dealers carry multiple brands of equipment, some at the same store location.**

# Eaton Exec: Ag Equipment Innovation 'At a Tipping Point'

While covering a recent ag machinery conference in Iowa, *Ag Equipment Intelligence* heard nothing to suggest the technological evolution in agriculture will slow any time soon.

Jeff Schick, global director of Eaton Corp.'s ag and forestry market segment, said increasing demand for food, limited natural resources and rising input costs would challenge engineers to find innovative solutions to production agriculture.

Schick, a former executive for new product development at Deere & Co., addressed OEM suppliers at the 25th annual Agriculture Machinery Conference held May 3-5 in Cedar Rapids, Iowa.

**Growing Exports.** Agriculture is already a huge business in the U.S., with 4.1 million jobs in direct employment and 25 million employed when the allied food and fiber industries are added, Schick said. Last year, the U.S. exported $35 billion more in agricultural goods than it imported, up from just $5 billion in 2005.

But Schick emphasized that agriculture is rapidly becoming a global business, with Brazil and Russia adding acres and most other nations in need of new farming technology to keep up with expanding global demand for ag products.

***"Difficult farm mechanization challenges could be solved with 'electro hydraulics' — a marriage of electronics and hydraulics..."***

"Those technologies are going to have to come from somewhere, and it seems to me that the people in this room have a significant head start over most of your global counterparts," said Schick. "I'm firmly convinced that we're at a tipping point of a literal explosion in agricultural technology."

Eaton Corp. is an $11.9 billion business that makes electrical, hydraulic, pneumatic, drivetrain and powertrain components and systems for a variety of industries, including agriculture.

Some 334 attendees discussed a number of technology issues affecting agriculture, including future trends in computer-aided design, fluid power technology, and interim Tier IV emissions requirements and their implications for the equipment market. Manufacturers also discussed design and market challenges associated with biomass harvesting equipment.

Two Iowa farmers showed engineers how they've used field data gathered by precision ag systems to analyze field conditions, solve soil problems and boost yields without wasting seed and fertilizer.

There will be more to come from farm mechanization, Schick says. In the near term, the technological advancements involve familiar areas like genetically modified plant and animals, computers, wireless communications, GPS, clean diesel power, autonomous vehicles and hydraulics.

**Electro Hydraulics.** More difficult farm mechanization challenges could be solved with "electro hydraulics" — the marriage of electronics and hydraulics to improve the performance of agricultural components, especially in precision agriculture. A driving force behind this is the cost of inputs: Farmers spent $241 billion in 2007 on fuel, seed, fertilizer, pesticides and other related items, up 39% from 2002.

"Your challenge," Schick told the engineers, "is to create new products that help make prescription agriculture more reliable, effective and integrated, while bringing costs down to a level that will let farmers everywhere take advantage."

He added that most equipment operators wouldn't be highly skilled machine operators or mechanics, "so the systems you design will have to pretty much be able to take care of themselves."

Schick offered glimpse of the future, as he sees it, with electro hydraulic technology guiding the way. "Today we can design a system that tells the operator when to bring their tractor in for an oil change. Tomorrow, that system will be able to predict system failures and schedule maintenance required to prevent that. The system may even order the necessary parts and schedule the service day and mechanic to install them.

"And the day after tomorrow, that monitoring capability may be built into the components themselves, such as hydraulic fluids that report their condition, or hoses that tell you in advance exactly where and when they're going to fail."

***"Your challenge is to incorporate these new technologies into robust, cost-effective systems..."***

The need to conserve water will demand technological innovation of irrigation valves, sprayers and the like, he said. "Intelligent systems will measure soil moisture and deliver water where and when it's needed — and a precise quantity of water."

The dairy and livestock industries may see automated feeders that tailor food delivery to individual animal requirements, and may be combined with animal identification systems to meet increasing safety regulations.

**Repurposed Tools.** Specialized equipment that supports orchards, vineyards, and vegetable, citrus and coffee farms may also be "re-examined, re-purposed and redesigned to be more efficient," said Schick.

"Your challenge is to incorporate these technologies into robust, cost-effective systems that will work anywhere in the world, with minimal or nonexistent support infrastructure," he said. "While you're busy meeting those challenges, you can be sure world governments will continue to adopt ever-more stringent emission regulations for the power plants you use.

"Not only will you have to deal with rising fuel costs, but also compensate for the reduction in available engine power caused by emission control systems. It brings a whole new meaning to doing more with less." AEI

# April Equipment Sales Stay Strong

North American retail sales of farm equipment in April showed staying power, according to the most recent figures released by the Assn. of Equipment Manufacturers.

According RW Baird analyst, Robert McCarthy, row-crop and 4WD tractor sales increased 6% and 40.3%, respectively, in the seasonally most important month for tractor sales. Combine sales also showed continued strength as they accelerated to a 20.8% increase in April. Inventories began to decline seasonally after solid March sales and, with off-road diesel engine emissions standards changing at year-end, are already well below year-earlier levels.

- U.S. and Canada row-crop (2WD, >100 hp) tractor sales increased 6% year-over-year in the seasonally most important month of the year, similar to the 5% increase last month despite a roughly flat U.S. comparison. April has historically represented 12.9% of annual row-crop tractor sales over the past 5 years.
- Row-crop tractor inventories were 18.8% below levels last March.
- 4WD tractor sales jumped 40.3% year-over-year, also comparable to last month's 41.7% increase. April is also the strongest month of the year for 4WD tractor sales, averaging 14.7% of annual sales from 2005-2009.
- Inventory declined 11.7% below March-2009 levels, falling to 56 days-sales from 69 last year.
- Combine sales comparisons turned sharply positive in April, increasing 20.8% year-over-year after 2 months of declines. April typically accounts for just 6% of annual sales.
- Combine inventories rose 12.8% above year-ago levels, increasing slightly on a days-sales basis but well below the 55 days-sales averaged during the prior 5 years.
- Sales of 40-100 horsepower tractors were down 6% year-over-year vs. down 11% in March and down 18% in February.
- Unit sales of <40 horsepower tractors were up 13% in April vs. up 15% in March and down 9% in February.

**AEI**

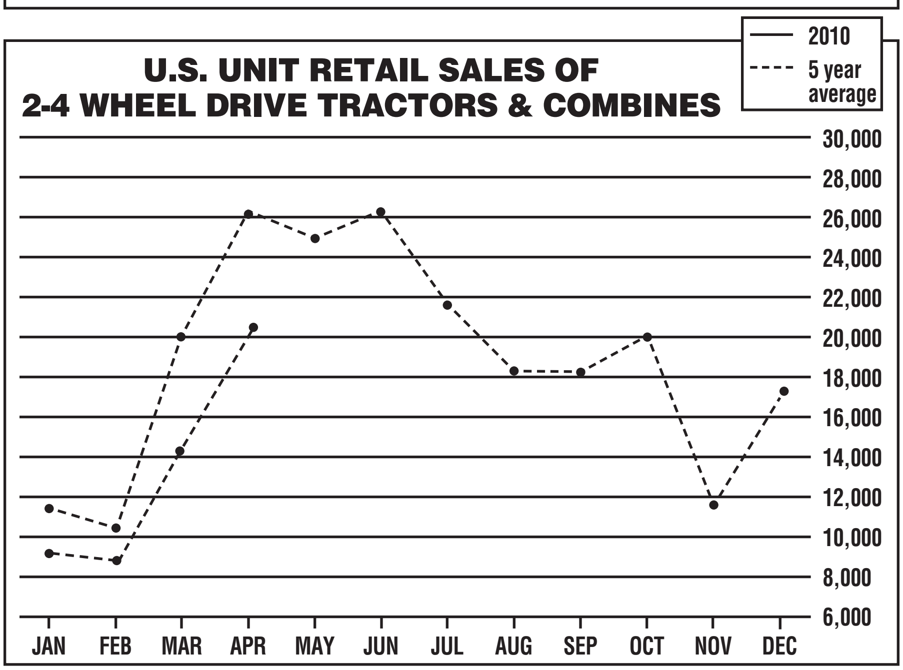
## APRIL U.S. UNIT RETAIL SALES

| Equipment | April 2010 | April 2009 | Percent Change | YTD 2010 | YTD 2009 | Percent Change | April 2010 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 11,428 | 10,012 | 14.1 | 25,744 | 23,550 | 9.3 | 46,903 |
| 40-100 HP | 5,018 | 5,466 | -8.2 | 9,007 | 14,024 | -10.1 | 24,310 |
| 100 HP Plus | 2,665 | 2,647 | 0.7 | 9,333 | 8,469 | 10.2 | 6,577 |
| **Total-2WD** | 19,111 | 18,125 | 5.4 | 49,101 | 47,619 | 3.1 | 77,790 |
| **Total-4WD** | 524 | 470 | 11.5 | 1,715 | 1,373 | 24.9 | 733 |
| **Total Tractors** | 19,635 | 18,595 | 5.6 | 50,816 | 48,992 | 3.7 | 78,523 |
| **SP Combines** | 633 | 562 | 12.6 | 2,309 | 2,188 | 5.5 | 1,008 |

## APRIL CANADIAN UNIT RETAIL SALES

| Equipment | April 2010 | April 2009 | Percent Change | YTD 2010 | YTD 2009 | Percent Change | April 2010 Field Inventory |
|---|---|---|---|---|---|---|---|
| **Farm Wheel Tractors-2WD** | | | | | | | |
| Under 40 HP | 1,176 | 1,107 | 6.2 | 2,465 | 2,567 | -4.0 | 7,527 |
| 40-100 HP | 725 | 644 | 12.6 | 1,802 | 1,958 | -8.0 | 3,544 |
| 100 HP Plus | 622 | 453 | 37.3 | 1,416 | 1,189 | 19.1 | 1,993 |
| **Total-2WD** | 2,523 | 2,204 | 14.5 | 5,683 | 5,714 | -0.5 | 13,064 |
| **Total-4WD** | 329 | 138 | 138.4 | 628 | 429 | 46.4 | 418 |
| **Total Tractors** | 2,852 | 2,342 | 21.8 | 6,311 | 6,143 | 2.7 | 13,482 |
| **SP Combines** | 162 | 96 | 68.8 | 447 | 419 | 6.7 | 379 |

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




*—Assn. of Equipment Manufacturers*

# Bosch & Dana in Joint Venture to Produce Ag CVT Transmissions

A new family of stepless transmissions for ag tractors and other off-highway vehicles will be produced by a planned joint venture between Dana and Bosch Rexroth.

The proposed 50/50 venture, which will likely be based in Italy, and will engineer, manufacture and market hydro-mechanical variable power-split transmissions. They will compete with existing lines from ZF, Carraro DriveTech, Oerlikon Graziano and a number of OEMs who produce their own continuously variable transmissions — including AGCO, CNH and Same Deutz-Fahr Group.

"Our two companies offer a broad range of complementary skill sets, which will enable the joint venture to deliver a unique array of advanced transmissions to the off-highway market," says George Constand, Dana chief technical officer.

"The venture will benefit from Dana's expertise in off-highway transmission engineering and manufacturing, and Bosch Rexroth's deep experience in hydraulics and control systems."

Dana and Bosch Rexroth will contribute staff, intellectual property and capital, according to a memorandum of understanding agreed between the two companies.

Dana reported 2009 sales revenues of $5.2 billion from the axles, driveshafts, off-highway transmissions, sealing and thermal management products it makes. Bosch Rexroth, part of the Bosch Group of Germany, reported 2008 revenues of $7.7 billion from sales of hydraulic drives and electronic control systems used in fixed and mobile machinery. AEI

# Despite 23% Sales Drop, Amazone Avoids Staff Reductions

German tillage and crop applications equipment manufacturer H Dreyer — maker of Amazone-branded equipment — managed to retain its permanent staff of 1,500 and complete significant capital projects in the face of last year's agricultural machinery market slump.

Sales fell 23% but still exceeded the average of the past 5 years to record the second-highest figure in the company's history at the equivalent of $374 million compared with $490 million in 2008.

"By taking back work transferred to other manufacturers, reducing man hours and vacation balances and further improving the efficiency of our production processes, we were able to maintain our committed permanent workforce," says director Christian Dreyer.

"We also analyzed our cost structures and reviewed investment plans but completed several projects during the year that were already underway."

An extension to the central parts store has doubled its capacity. A new high-tech fertilizer spreader test laboratory was opened, and production of large area seed drills was begun in a new assembly facility during the past year.

Together with infrastructure projects at other Amazone locations in France and Germany, the company invested the equivalent of $12.9 million last year.

It has also worked to further improve customer communications as the company seeks to establish itself as the specialist in "intelligent crop production" and has committed to spending more than 5% of its annual sales on R&D. AEI

# USDA Crop Forecast Seen as 'Neutral'

USDA's May 11 World Supply and Demand Estimates is viewed as 'neutral' as it projected average crop prices to decline modestly from its previous outlook. Overall, the latest forecast increases both beginning and ending stocks estimates.

Some analysts see this as being "bearish" for farm equipment sales through the remainder of 2010.

Henry Kirn, machinery analyst for UBS, says he is maintaining his our neutral ratings on CNH and Deere. "Our cautious stance on the ag equipment names reflects lofty investor expectations for U.S. ag equipment demand and still challenging global ag equipment demand," he said in a note to investors.

Average corn prices are expected to range from $3.20-3.80, down 3% from $3.50-3.70 per bushel last season. Soybeans are forecast to come in between $8-9.50, down 8% from $9.50 per bushel in the 2009-10 season. Wheat prices are forecast to decline 6% at the midpoint to $4.10-5.10 per bushel from $4.90.

Despite USDA's moderate adjustments, Lewis Hagedorn, analyst for JP Morgan, said, "the forecast revealed somewhat larger than expected corn supply, counterbalanced by larger demand. Forecast new-crop stocks at 1,818 million bushel are relatively comportable, but not as large as had been widely foreseen.

"When combined with larger-than-expected increases to old crop corn demand forecasts, this report may serve to support prices in the near term." AEI

**USDA WASDE Forecast**
**May 11, 2010**

| | May 2009-10 | May 2010-11 |
|---|---|---|
| **Corn** | | |
| Harvested Acres | 79.6 | 81.8 |
| Yield | 164.7 | 163.5 |
| Production | 13,110 | 13,370 |
| Exports | 1,950 | 2,000 |
| End Stocks | 1,738 | 1,818 |
| **Soybeans** | | |
| Harvested Acres | 76.4 | 77.1 |
| Yield | 44.0 | 42.9 |
| Production | 3,359 | 3,310 |
| Exports | 1,455 | 1,350 |
| End Stocks | 190 | 365 |
| **All Wheat** | | |
| Harvested Acres | 49.9 | 47.1 |
| Yield | 44.4 | 43.4 |
| Production | 2,216 | 2,043 |
| Exports | 865 | 900 |
| End Stocks | 950 | 997 |