

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

July 15, 2011  
Vol. 17, Issue 14

- Deere's EU Strategy
- Titan Int'l Goes Global
- Equipment Sales Slow

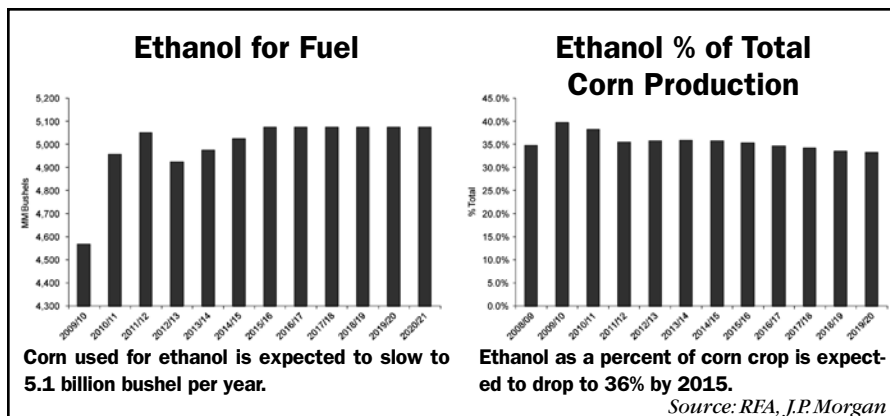
## Ethanol Continues As a Major Driver of Corn Production, Pricing

Corn ethanol will remain a major force in the production and pricing of the U.S. corn crop, with or without support of subsidies and tariffs.

Despite the U.S. Senate vote last month to end the 45-cent-a-gallon subsidy that the government gives to ethanol refiners and the 54-cent-a-gallon tariff on imported ethanol, most industry observers saw the push as largely symbolic. Both are scheduled to expire at the end of this year, anyway.

On the same day as this vote, the Senate also showed it continues to support ethanol infrastructure by voting 59-41 to block an amendment that would have eliminated the ability of the USDA to spend money on installing additional blender pumps.

Nonetheless, political pressure is mounting for substantial spending



cuts and many ag programs, including those for ethanol, are likely to be victims of the budget axe.

But current and longer term trends indicate that ethanol will remain a major player in U.S. agriculture.

The Renewable Fuel Standard

mandates that 12.6 billion gallons of ethanol will be blended in 2011, which is a 5% increase compared with 2010. Annualized through June of this year, blenders are on a pace that will take yearly production to

*Continued on page 2*

## USDA Expects Corn for Ethanol to Surpass Animal Feed, But RFA Doesn't Think So

When USDA issued its World Ag Supply and Demand Estimates (WASDE) report on July 12, it noted that in 2011 it expects corn for ethanol to exceed the amount used in animal feed for the first time ever.

The agency projects that 5.05 billion bushels of corn will go into the production of ethanol, while 5 billion bushels will be headed to the feed market. USDA projected this trend will continue throughout 2012, as well.

But the Renewable Fuels Assn. (RFA) is challenging USDA's assertion that corn use for ethanol will exceed its use for animal feed.

In a July 13 release, RFA says, "USDA released the July WASDE

report and, to much fanfare, it assumed that ethanol demand would exceed livestock feed demand for the first time. A close examination of the facts shows this not to be the case."

**RFA's Case.** According to RFA, USDA is assuming more than 14.1 billion gallons of ethanol production for the 2010-11 marketing year, based upon the industry average of 2.8 gallons per bushel and the USDA estimate of 5.05 billion bushels of corn. As the most recent weekly ethanol data indicates, calendar year 2011 ethanol production is on pace for 13.7 billion gallons.

"USDA is either finding ethanol production the Energy Information

Admin. (EIA) is unaware of, or they are using out of date ethanol yields," says the association. Based upon RFA's calculation of corn use — RFA assumes a conservative 2.77 gallon per bushel yield — total gross corn use in ethanol production will be less than 5 billion bushels in 2011.

The USDA estimate does not properly account for the one-third of each bushel entering an ethanol biorefinery that is returned to the livestock feed market, mostly in the form of Distiller's Dried Grains with Solubles (DDGS). Even if USDA's estimates are correct, which they likely are not, says the RFA, the total net corn use for

*Continued on page 4*

13.1 billion gallons.

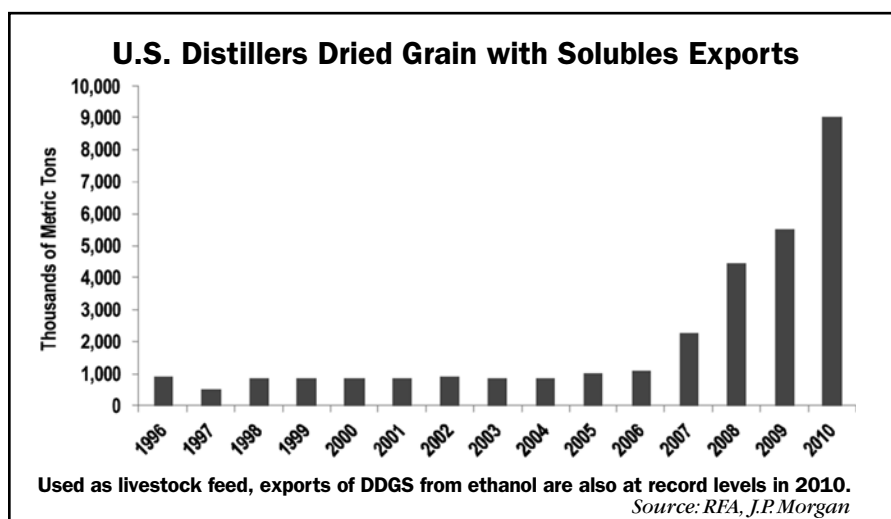
This, of course, indicates that current production levels are exceeding the mandate. According to an analysis by JP Morgan, this represents discretionary blending and/or export activity by the industry. "Our analysis suggests that the elimination of the blender's credit could put the discretionary blending at risk," says Ann Duignan of JP Morgan in a note. "In a worst-case scenario, this would add 220 million bushels of corn back into inventory, driving stocks-to-use up from the current estimate of 5.2% to 6.9%. This stocks-to-use ratio would be far from 'burdensome.'"

**Corn for Ethanol.** It's estimated that nearly 40% of all corn produced in the U.S. during the 2010-11 marketing year will go into producing ethanol. USDA says this is expected to decline to 38% in 2011-12. From there, the rate of growth will slow to about 36% in 2015.

"According to our analysis, ethanol is still a major swing factor in corn demand," says Duignan. "However, the rate of growth is going to slow from here going forward. USDA expects corn usage for ethanol to increase by 100 million bushels each year, or 36% of corn production by 2015. This will slowly decline as corn ethanol production stabilizes."

**Ethanol Pricing.** Duignan also reports that ethanol producers continue to make money, but not as much as they did previously. At current prices of ethanol, corn, natural gas and Distiller's Dried Grains with Solubles (DDGS), ethanol producers' gross margins are about 5.5%, down from a high of 24.7% in November 2009 but up from JP Morgan's last ethanol review of 4.3% in March 2011.

"Margins have increased with flat corn prices, ethanol prices up 2%, DDGS up 5% and natural gas up 13% since early March," she says.



Overall, ethanol is currently trading at \$0.14 per gallon below wholesale gasoline prices. With the \$0.45 subsidy, the blender is netting about \$0.59 a gallon. This equates to \$0.06 per gallon of gasoline blended with 10% ethanol.

"This is a decline from March, when blenders were making up to

***"Eliminating ethanol would equate to consuming 13 billion gallons a year of oil..."***

\$0.81/gallon of ethanol blended (including the subsidy). At current prices, even without the tax subsidy, blenders are still making money," says Duignan. "If the \$0.45 tax credit were to expire on December 31 as planned, the incentive to continue discretionary blending still exists."

**Brazilian Exports.** There's a good chance that the \$0.54 tariff on imported ethanol will go the same way as the \$0.45 ethanol subsidy at the end of 2011. Even with the repeal of the tariff, most analysts, as well as USDA, say that Brazilian ethanol is still

not competitive with U.S. ethanol.

"Even without the tariff, we believe the price of Brazilian ethanol, including transportation costs, make imports too expensive at this time. All else being equal, U.S. ethanol prices would have to increase to \$3.16, from \$2.83 today, or the U.S. dollar would have to appreciate 14% against the Brazilian real, for Brazilian sugar ethanol imports to achieve parity with U.S. corn ethanol," says Duignan.

She adds that it will be politically and economically risky for the U.S. to allow ethanol production to lapse. "Eliminating ethanol would equate to consuming an incremental 13 billion gallons a year of oil."

**AEI**

#### **AEI Copyright Notice**

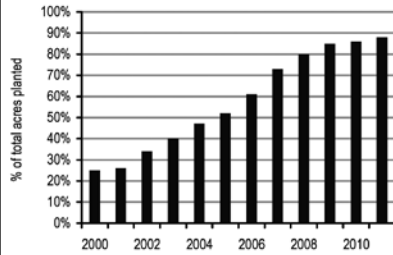
*Ag Equipment Intelligence* is a copyrighted publication of Lessiter Publications. Copying an entire issue to share with others, by any means, is illegal. Duplicating of individual items for internal use is permitted only with permission of the publisher. Licensing agreements that allow distribution of *Ag Equipment Intelligence* to a specified number of readers are available by contacting Lessiter Publications at 262-782-4480, ext. 408.

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications Inc., 225 Regency Ct., Suite 100, Brookfield, WI 53008-0624. © 2011 by Lessiter Publications Inc. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher. Please send any address changes as soon as possible to the address shown above.

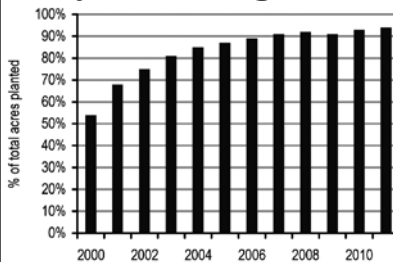
U.S., Canada and Mexico print subscriptions are \$349 per year. Save \$50 by receiving *Ag Equipment Intelligence* each month via E-mail Internet access at only \$299 per year. International print subscriptions are \$449 per year. Send subscription orders to: *Ag Equipment Intelligence*, P.O. Box 624, Brookfield, WI 53008-0624. Fax: 262/786-5564. Phone: 262/782-4480 or 866/839-8455 (U.S. only). E-mail: info@lesspub.com.

## USDA Updates Bt Seed Use in 2011

### Genetically Modified Corn Acreage Planted



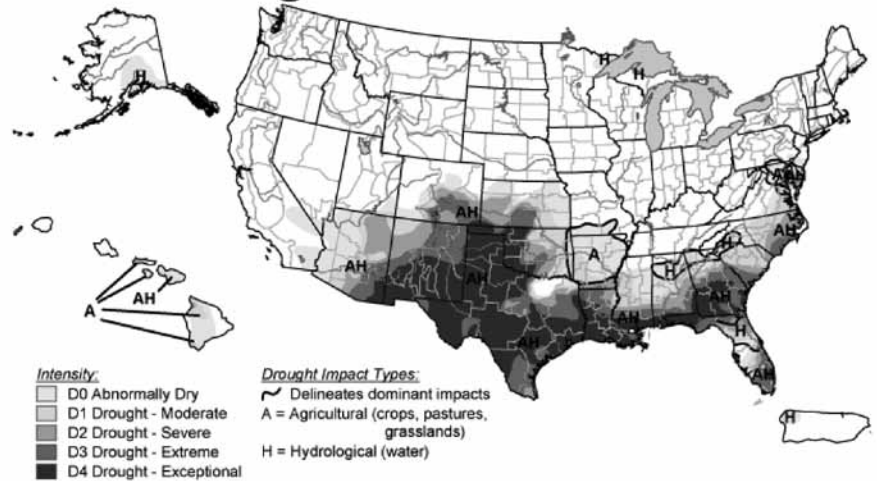
### Genetically Modified Soybean Acreage Planted



In its June 30 Acreage Report, USDA provided its annual update on farmers' use of corn and soybean Bt seed use. According to the ag agency, biotechnology variety seed was planted on 88% of corn acres and about 92% of soybean acres this year. This compares with 86% of corn acres and 91% of soybean acres planted in 2010. In 2000, only 25% of corn and 53% of soybean acreage was planted with Bt seeds. (Bt seeds include insect resistant, herbicide resistant and stacked gene varieties.)

Source: U.S. Department of Agriculture

## U.S. Drought Monitor



The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

<http://drought.unl.edu/dm>

Released Thursday, July 7, 2011

Author: Richard Heim/Liz Love-Brotak, NOAA/NESDIS/NCDC

### Titan Machinery Operating in a Dealer 'Sweet Spot'

Recent commodity price declines, slower farm machinery sales and weather issues are currently headwinds for dealers in some regions of the U.S. But in a July 14 note, RW Baird analyst Robert McCarthy says Titan Machinery is benefiting from important geographic and scale advantages.

"Operating in a sweet spot, Titan's agricultural operations are focused in states where weather has been relatively favorable and flooding has had a minimal impact on farm acreage.," says McCarthy. He points out that Titan does not operate in the drought-plagued areas of Texas, Oklahoma and Kansas or states in the southeastern U.S.

It believes it is leveraging its favorable geographic footprint with steady market share expansion, augmented by farmers' favorable experience this spring and summer with the new SCR engines in Case IH and New Holland machinery.

Consequently, Titan believes its access to low-cost capital creates an important competitive advantage, particularly relative to smaller machinery dealers that face risk-averse lenders scarred by losses from defunct auto dealers, McCarthy says. The pool of potential acquisitions has increased with the favorable fundamental environment, while Titan's now-larger scale and balance sheet bring \$100-million targets within range.

### FARM MACHINERY TICKER (AS OF 7/13/2011)

Equipment Mfr.	Symbol	7/13/11 Price	6/13/11 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
AGCO	AGCO	\$50.12	\$46.81	\$59.81	\$29.31	16.71	1.51 M	4.75 B
Alamo	ALG	\$22.75	\$21.78	\$29.27	\$18.68	11.92	31,287	270.27 M
Art's Way	ARTW	\$9.09	\$8.64	\$15.95	\$4.76	69.93	10,237	36.51 M
Caterpillar	CAT	\$108.64	\$95.35	\$116.55	\$63.34	19.30	8.02 M	70.01 B
CNH	CNH	\$36.82	\$36.90	\$54.45	\$26.26	15.03	407,651	8.80 B
Deere	DE	\$81.89	\$80.22	\$99.80	\$58.09	14.08	4.96 M	34.37 B
Kubota	KUB	\$46.40	\$42.02	\$55.50	\$37.50	17.28	55,992	11.80 B
<b>Dealer Groups</b>								
Cervus Equipment	CVL	\$17.50	\$15.80	\$18.40	\$14.20	N/A	15,081	N/A
Rocky Mtn Dealerships	RME	\$10.06	\$9.50	\$11.00	\$7.50	11.63	38,348	188.20 M
Titan Machinery	TITN	\$26.78	\$29.37	\$32.03	\$12.48	17.41	474,676	475.43 M

## Major Crop Receipts — USDA July 12, 2011

<i>In millions of bushels, except where indicated</i>	USDA 2010-11 Projected	Variance vs. Year Ago	USDA 2010-11 Projected	Variance vs. Year Ago	USDA 2010-12 Projected	Variance vs. Year Ago	USDA 2010-12 Projected	Variance vs. Year Ago
	June 11 Est.	July 11 Est.	June 11 Est.	July 11 Est.	June 11 Est.	July 11 Est.	June 11 Est.	July 11 Est.
Total Major Crop Receipts	\$117,126	31%	\$115,725	29%	\$147,673	26%	\$138,076	19%
Total Direct Payment	\$6,098	-3%	\$6,098	-3%	\$6,212	2%	\$6,286	3%
Total Countercyclical Payment	\$0	n/a	\$0	n/a	\$0	n/a	\$0	n/a
Total Loan Deficiency Payment	\$0	n/a	\$0	n/a	\$0	n/a	\$0	n/a
Grand Total (\$ millions)	\$123,224	29%	\$121,823	27%	\$153,885	25%	\$144,362	19%
% Revenue Contributed by Govt.		4.9%		5.0%		4.0%		5.0%

Source: USDA

ethanol is 3.3 billion bushels.

**Ending Stocks.** Overall, the ag agency raised its corn ending stocks forecast, but it remained below the consensus of industry watchers. Its 2011-12 estimate was increased to 870 million bushels, which is 25% above their June estimates, but 13% below consensus, according to Henry Kirn, analyst for UBS.

It also lowered its soybean ending stocks estimate by 8% to 175 million bushels, 8% above consensus and dropped wheat ending stocks to 670 million bushels, 5% below consensus. "We see this WASDE report as slightly bullish for corn prices," says Kirn.

USDA lowered the midpoint of its corn price forecast to \$6 per bushel from \$6.50, lowered its average soybean price forecast to \$13 a bushel from \$14. It also dropped its average wheat price forecast to \$7.30 per bushel from \$7.70.

**Equipment Sales.** "We see solid farm profitability as a catalyst for farm equipment demand," says Kirn. He also noted that corn, soybean and wheat prices remain well above historical averages. "USDA forecasts farm cash net income to increase 8% year-over-year in 2011, and we see the strength in farm profitability as likely to drive strong farm equipment demand through 2012," he says.

Ann Duignan, machinery analyst for JP Morgan, said in a July 12 note, "Cash receipts are still supportive of ag equipment demand. Our model suggests that cash receipts from major crops will be \$144.3 billion in the 2011-12 crop year, plus 19% year-over-year and \$121.8 billion for 2010-

11, up 27% year-over-year," she says.

"These projections are down from last month. However, the 2011-12 projection still represents a record and nearly 20% growth."

**Corn Acreage Up.** Earlier, USDA raised its 2011 corn planted acreage forecast by 1.6 million acres to 92.3 million acres. The revised forecast represents a 5% increase from last year's 88.2 million acres, the second highest planted acreage since 1944.

At the same time, USDA lowered its forecast for soybean plantings by

***"USDA estimate does not account for one-third of each bushel entering an ethanol biorefinery that is returned to the live-stock feed market..."***

1.4 million acres to 75.2 million acres, representing a 3% decrease from the 2010 acreage.

The RFA also offered its analysis of planted acres in the context of the food vs. fuel debate.

According to the association, while corn acres are at their second-highest level since 1944, total principal planted crop acreage is only 1% above 2010 and slightly lower than 2009 levels.

Based upon USDA's latest projections of an average corn yield of 158.7 bushels per acre and harvested acres of 84.9 million, it would mean a 2011 harvest of 13.47 billion bushels. This is nearly 300 million more bushels of

corn than USDA was projecting in its most recent supply/demand estimates.

This would mean 2011-12 carryout stocks could be very close to 1 billion bushels, assuming no changes to USDA's latest demand estimates. If average yields are closer to the historical trend of 162 bushels per acre, a crop of 13.75 billion bushels is in the offing. **AEI**

### Sales Growth Pegged at 7%

Ag Equipment Intelligence's June Dealer Trends & Outlook survey showed that, on average, dealers saw 7% sales growth during May compared with the previous month. AGCO dealers reported the highest growth rate at 12%.

Average Sales Growth		
(% chg v/v)	Apr-11	May-11
<b>Overall</b>	<b>8%</b>	<b>7%</b>
<b>By Brand</b>	<b>Apr-11</b>	<b>May-11</b>
AGCO	12%	13%
Massey Ferguson	n/a	9%
Challenger	n/a	24%
John Deere	8%	8%
New Holland	8%	4%
Case IH	5%	4%
McCormick	n/a	2%
Kubota	13%	5%
Mahindra	n/a	-2%
Shortlines	n/a	-13%
<b>By Region</b>	<b>Apr-11</b>	<b>May-11</b>
Appalachia	5%	-4%
Canada	5%	8%
Corn Belt	3%	6%
Delta States	10%	4%
Lake States	11%	16%
Mountain	3%	8%
Northeast	13%	12%
Northern Plains	11%	3%
Pacific	11%	10%
Southeast	0%	17%
Southern Plains	-1%	-5%

<b>Plantings Summary — USDA June 30, 2011</b>				
<b>Plantings Summary</b>	<b>2010-11 June '11 USDA</b>	<b>2010-11 July '11 USDA</b>	<b>2011-12 June '11 USDA</b>	<b>2011-12 July '11 USDA</b>
<b>Corn</b>				
Planted acres (in millions)	88.2	88.2	90.7	92.3
Harvested acres (in millions)	81.4	81.4	83.2	84.9
Yield (bu/acre)	152.8	152.8	158.7	158.7
Implied production (millions of bushels)	12,438.0	12,445.0	13,204.0	13,472.0
<b>Ending inventory (millions of bushels)</b>	<b>730</b>	<b>880</b>	<b>695</b>	<b>868</b>
<b>Soybeans</b>				
Planted acres (in millions)	77.4	77.4	76.6	75.2
Harvested acres (in millions)	76.6	76.6	75.7	74.3
Yield (bu/acre)	43.5	43.5	43.4	43.4
Implied production (millions of bushels)	3,332	3,333	3,285	3,222
<b>Ending inventory (millions of bushels)</b>	<b>180</b>	<b>200</b>	<b>190</b>	<b>175</b>
<b>Wheat</b>				
Planted acres (in millions)	53.6	53.6	57.7	56.4
Harvested acres (in millions)	47.6	47.6	47.8	47.2
Yield (bu/acre)	46.4	46.4	43.1	44.6
Implied production (millions of bushels)	2,208	2,209	2,060	2,104
<b>Ending inventory (millions of bushels)</b>	<b>809</b>	<b>861</b>	<b>687</b>	<b>670</b>
<b>Total Major Crop Acreage Planted</b>	<b>219.2</b>	<b>219.2</b>	<b>225.0</b>	<b>223.9</b>
Year-over-Year Change	-2.5%	-2.5%	2.6%	2.2%
<b>Total Major Crop Acreage Harvested</b>	<b>205.6</b>	<b>205.7</b>	<b>206.7</b>	<b>206.3</b>
Year-over-Year Change	-1.6%	-1.5%	0.5%	0.3%

## Strong Second Quarter Sales Puts Art's Way Slightly Ahead of First Half of 2010

Another sign that sales of ag equipment continue at a healthy clip is Art's Way's second quarter earnings report. The manufacturer of niche products showed a nearly 200% increase in net income compared with the same period of 2010.

The Armstrong, Iowa-based maker of animal feed, sugar beet, hay tools, forage and other specialty farm equipment said that its overall revenue grew by 16.3% to \$7.84 million for the period ending May 31, 2011.

The exceptionally strong second

quarter brought the company's net sales for the first 6 months of the year only slightly ahead of sales during first half of last year, rising 1.5% overall.

**Consolidated Revenue.** Art's Way's consolidated corporate sales for the 3- and 6-month period ended May 31, 2011 were approximately \$7,845,000 and \$12,509,000, respectively vs. \$6,748,000 and \$12,328,000 during the same periods in 2010.

This represented increases of \$1,100,000 for the quarter and

\$181,000 year-to-date, or 16.3% and 1.50% increases, respectively.

**Ag Sales.** The company's agricultural products segment continues as Art's Way's dominant market. The group had revenue for the 3 months ended May 31 of \$6,664,000, compared to \$4,606,000 during the same period of last year, a 44.7% increase.

Year-to-date sales were up to \$10,321,000 from \$8,202,000, an increase of \$2,119,000, or 25.8%. The year-to-date gross margin is 24% vs. 26.8% last year.



<b>Art's Way Consolidated Financial Highlights</b>						
	<b>For the Three Months Ended (Consolidated)</b>			<b>For the Six Months Ended (Consolidated)</b>		
	<b>May 31, 2011</b>	<b>May 31, 2010</b>	<b>Change</b>	<b>May 31, 2011</b>	<b>May 31, 2010</b>	<b>Change</b>
<b>Revenue</b>	\$7,845,150	\$6,748,178	16.3%	\$12,509,488	\$12,328,019	1.50%
<b>Operating Income</b>	\$548,175	\$211,854	158.8%	\$(110,781)	\$335,281	133.0%
<b>Net Income</b>	\$290,749	\$100,480	189.6%	\$(193,828)	\$134,905	243.7%

# Titan Int'l Acquisition of Goodyear Opens Door to Worldwide Ag

When ag tire maker Titan International acquired the European and Latin American farm tire assets of Goodyear in December 2010, the company went from being not only the largest farm tire manufacturer in the U.S. but a dominant player on the world stage.

According to C. Schon Williams, machinery analyst for BB&T Capital Markets, Titan International is heavily leveraged to the North American agricultural machinery industry with an estimated 70% of its 2011 sales derived from farm equipment.

While it's moving into the earth-moving, construction and consumer markets with its tires and rims, ag products are the "bread and butter" of Titan's sales. Its product line consists of a broad range of wheels and tires for use in OEM and aftermarket applications on farm machinery.

Sales within the segment consist of wheels, tires, and rims, which are used on tractors, combines, skidders, plows, planters, and irrigation equipment.

Distribution goes direct to large agricultural machinery OEMs (such as Deere, CNH, Kubota, AGCO) as well as indirect on aftermarket applications to farmers through independent distributors and equipment dealers.

**Package Deals.** "Titan is in the unique position of offering both the wheel and tire as a package as well as offering assembly and delivery," says Williams. Agricultural tires are primarily produced in Titan's Des Moines and Freeport, Ill., plants and range in price from \$90 to over \$2,300 each.

Williams reports that starting in 2005, Titan began consolidating the U.S. off-road tire market by purchasing Goodyear's North American farm tire assets in Freeport. The company continues to manufacture tires under the Goodyear brand, for which it pays a royalty. This was followed by the purchase of Continental Tire's OTR facility in Bryan, Ohio, in 2006.

Like other farm product manufacturers, higher commodity prices have proven to be a positive catalyst for Titan in the past, because as prices rise, generally we have seen farm incomes move higher.

The USDA is predicting average farm prices for corn to increase 46-55% in the 2010-11 growing season and another 9-35% in 2011-12.

"All told, this outlook should translate into higher net farm cash income and bode well for Titan's agricultural tire and wheel sales over the next 18 months given their close historical relationship," Williams says.

He says this is a major move by Titan because it significantly improves the geographic mix for the company by adding local production and providing direct ties to faster-growing foreign markets.

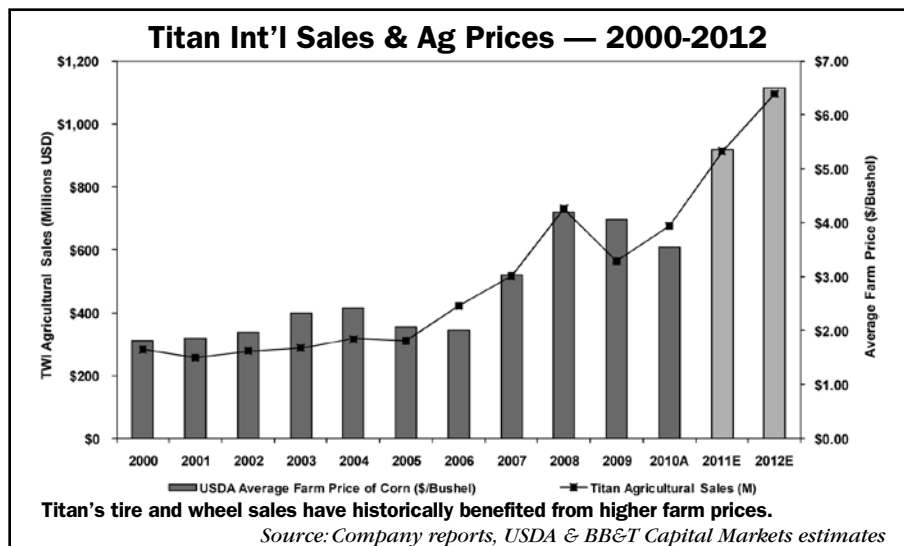
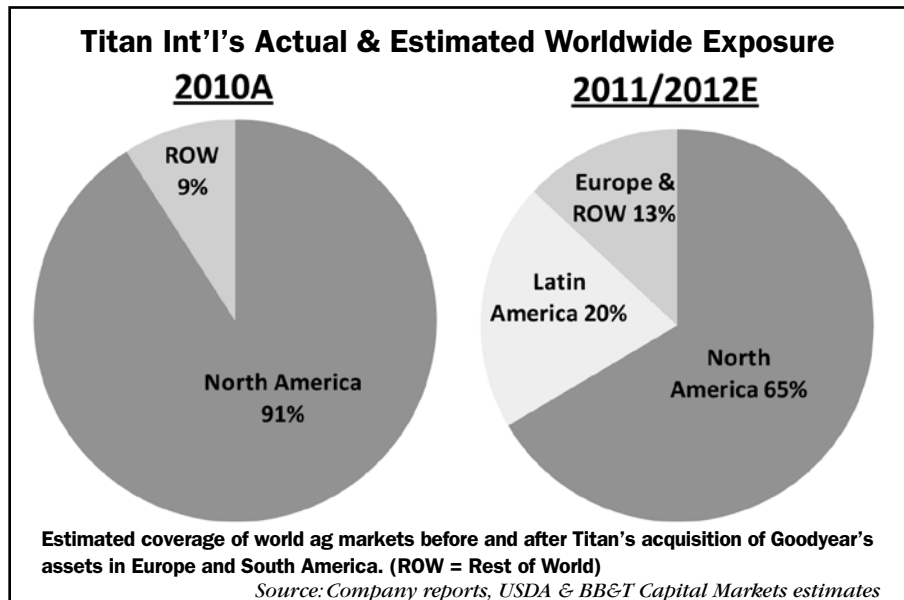
International sales are currently only 9% of the mix, but with the addition of Latin America and Europe, the

company's overseas exposure would increase to an estimated 35%.

**Worldwide Opportunities.** "We believe this transaction will not only diversify Titan's mix, but also give it access to regions that are growing faster than North America," says Williams.

"The Brazilian farm economy is expected to grow faster than more developed countries given export development and the expanding demand from local consumers in the region.

"A physical presence in France will allow Titan to sell into parts of Eastern Europe where farmland is becoming increasingly mechanized," says Williams. **AEI**



## Large Equipment Sales Fall in June

North American sales of row-crop tractors and combines saw their first significant drop in several months in June, according to the latest figures released by the Assn. of Equipment Manufacturers.

In his analysis of monthly sales, Robert McCarthy of RW Baird says, "Combine sales fell 37% year-over-year after a 10% decline last month, a disappointing start to the summer-fall selling season. Large tractor sales comparisons also moderated sequentially, though 4WD tractors faced a tougher prior-year comparison," he says.

"Upcoming new model-year introductions, with Tier 4i engines, potentially are impacting supply/availability and thus sales, but prior-year comparisons only get tougher in the second half of the year."

U.S. and Canada large tractor and combine sales comparisons weakened further in June, declining 17% year-over-year vs. an essentially flat comparison in May. Comparisons moderated across all large ag machinery types and were worse in the U.S. (-23%) vs. Canada (+15%).

- Total second quarter combine sales slipped 12.9% year-over-year. June is historically an important month seasonally for combine sales (10.5% of annual sales) and marks the start of the key summer-fall selling season.

- Row-crop tractor sales fell 5.1% in June after a 1.4% year-over-year decline in May and also dropped 1.2% in the second quarter. This category includes the largest number of tractors in the 175-plus horsepower range affected by the emissions standard transition, with most manufacturers in the process of shifting production to Tier 4i-compliant designs.

- 4WD tractor sales fell 25% year-over-year in June, a sharp reversal from the 28% growth seen in May, though against a more difficult prior-year comparison.

Mid-range tractor sales increased 5% year-over-year in June after a 10% decline last month. Utility tractors were up by 12%.



### JUNE U.S. UNIT RETAIL SALES



Equipment	June 2011	June 2010	Percent Change	YTD 2011	YTD 2010	Percent Change	June 2011 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	10,516	9,381	12.1	47,237	47,066	0.4	52,296
40-100 HP	5,339	5,215	2.4	25,032	24,171	3.6	23,387
100 HP Plus	1,717	1,908	-10.0	12,593	13,223	-4.8	5,671
<b>Total-2WD</b>	<b>17,572</b>	<b>16,504</b>	<b>6.5</b>	<b>84,862</b>	<b>84,460</b>	<b>0.5</b>	<b>81,354</b>
<b>Total-4WD</b>	<b>365</b>	<b>492</b>	<b>-25.8</b>	<b>2,757</b>	<b>2,551</b>	<b>8.1</b>	<b>901</b>
<b>Total Tractors</b>	<b>17,937</b>	<b>16,996</b>	<b>5.5</b>	<b>87,619</b>	<b>87,011</b>	<b>0.7</b>	<b>82,255</b>
<b>SP Combines</b>	<b>468</b>	<b>909</b>	<b>-48.5</b>	<b>4,090</b>	<b>3,817</b>	<b>7.2</b>	<b>1,128</b>

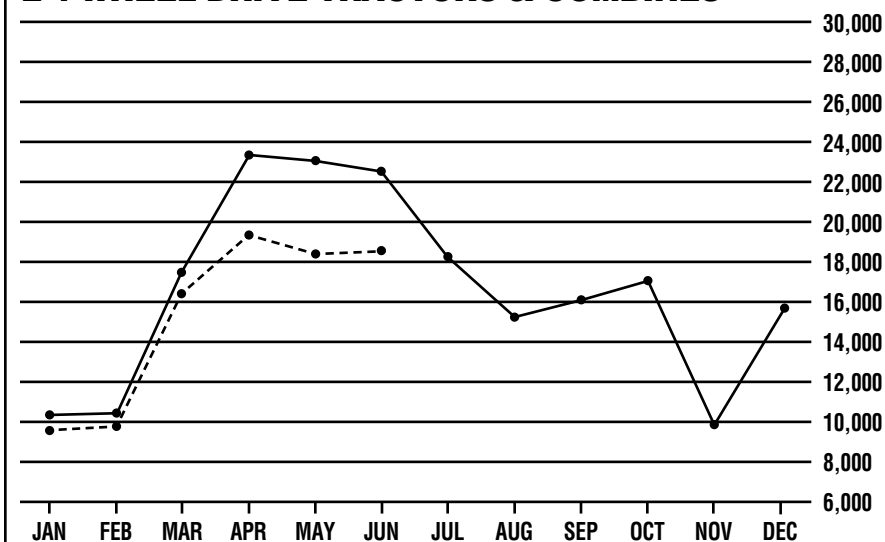
### JUNE CANADIAN UNIT RETAIL SALES



Equipment	June 2011	June 2010	Percent Change	YTD 2011	YTD 2010	Percent Change	June 2011 Field Inventory
<b>Farm Wheel Tractors-2WD</b>							
Under 40 HP	1,586	1,407	12.7	5,998	5,534	8.4	6,609
40-100 HP	627	474	32.3	2,971	3,039	-2.2	3,192
100 HP Plus	359	279	28.7	2,075	2,125	-2.4	1,280
<b>Total-2WD</b>	<b>2,572</b>	<b>2,160</b>	<b>19.1</b>	<b>11,044</b>	<b>10,698</b>	<b>3.2</b>	<b>11,081</b>
<b>Total-4WD</b>	<b>63</b>	<b>76</b>	<b>-17.1</b>	<b>735</b>	<b>818</b>	<b>-10.1</b>	<b>221</b>
<b>Total Tractors</b>	<b>2,635</b>	<b>2,236</b>	<b>17.8</b>	<b>11,779</b>	<b>11,516</b>	<b>2.3</b>	<b>11,302</b>
<b>SP Combines</b>	<b>254</b>	<b>235</b>	<b>8.1</b>	<b>1,073</b>	<b>986</b>	<b>8.8</b>	<b>698</b>

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

2011  
— 5 year average



—Assn. of Equipment Manufacturers



# Dealer Consolidation, New Products Underpins Deere's European Growth Strategy

*Ag Equipment Intelligence* reported in its March 2011 issue how John Deere intends to nearly double its annual sales to \$50 billion by 2018. (See "How Will Deere Double Sales by 2018?" p. 6, March 2011.)

At that time, AEI said that the company would focus on its overseas markets for most of its planned growth in the next 5 years.

Last month, Deere revealed a large part its strategy to financial analysts at its European analyst and dealer meeting. Reports from several analysts, including Robert McCarthy of RW Baird, Ann Duignan of JP Morgan and Henry Kirn of UBS, agree that Europe is a key growth region for the company.

According to their reports, Deere expects to increase its market share in its Region 2 — Europe, Commonwealth of Independent States and North Africa — through the introduction of more than 100 new products this year and further consolidation of its dealer network throughout the region.

Deere says its revenue goal for the region is \$7 billion by 2014 vs. \$4.5 billion in fiscal 2010. This is dependent on increasing its market share from roughly 19% to 25% as well as recovery of the European and CIS markets.

**Product Rollouts.** John Deere introduced more than 100 new products during the meeting with emphasis on larger equipment aimed at contractors (custom operators) and large arable farms with over 100 hectares (250 acres). The company is calling the introductions its "biggest product rollout ever."

Among the new products that Deere is rolling out are combines designed for small grains, particularly wheat, as it is the largest commodity grain produced in Europe.

Its new S-series combines, which reportedly includes 45% new/re-designed parts, 80% of which are tailored to European applications for smaller crops.

The company says it invested €100 million (nearly \$150 million)

developing the S-series equipment.

The company is also focusing on tripling revenues from sales of its "Crop Care" lines (sprayers and implements).

According to McCarthy, the top three players in EU-27 currently control only 10-20% of the market, vs. 60% in North America.

He adds that Crop Care margins are already above corporate average, and he sees possible regional acquisitions for Deere.

Undoubtedly, launches are part of the company's niche-market strategy, says Duignan of JP Morgan. "It was

---

***"Deere says its revenue goal for the region of \$7 billion by 2014 vs. \$4.5 billion in fiscal 2010 is dependent on increasing its market share and recovery of the European and CIS markets ..."***

---

evident from the number of product launches here in Europe that Deere's objective is to penetrate many of the niche markets that exist in Europe, which traditionally has been a fragmented, complex market with many suppliers of low-volume implements."

**Dealer Consolidation.** Paring down its dealer network throughout the region is also paramount for the company, according to analyst reports.

Kirn of UBS notes, "Deere

believes up to 60% of the customer decision for product purchases is based on the dealer and that larger dealers are able to serve customers more effectively than small dealers. Accordingly, Deere is focused on dealer consolidation."

Clearly the company sees dealer consolidation as key to its market share gain goals, says McCarthy.

"Deere sees itself as 5-10 years ahead of competition in consolidating its dealer base in Europe, though well behind North America. Its current efforts are focused on driving consolidation via volume bonuses and other financial incentives."

**'Historical Opportunity.'** For Deere, there are only 3 regions to expand crop production — CIS, Brazil and Africa. Consensus is that Deere sees Russia and the CIS as a "historical opportunity."

Today, the European market for farm machinery is valued at nearly \$35 billion with another \$8-10 billion in the CIS. However, because CIS is expected to grow faster than other regions and tends to buy large farm equipment, which comes at higher margins, Deere is focused on this market, Kirn says.

The CIS is expected to contribute \$1-2 billion to Deere's 2014 revenue goals and it's expanding its financing abilities in-region to accelerate penetration, according to McCarthy.

"Management estimates that only 5-8% of the CIS's current tractor fleet is western equipment, and its average farm size is 10 times that of Western Europe and requires Deere's largest, highest-margined equipment." **AEI**

## Big Corn Order from China Just the 'Start'

Analysts are predicting that the recent "big" order of corn from China is only the beginning of what's coming down the pike.

According to published reports, USDA is raising its estimates for corn exports to China from 500,000 metric tons to 2 million metric tons starting with the next marketing year, which starts on September 1.

Earlier this month, China placed an order for 540 metric tons of U.S. corn for August delivery. This exceeded USDA's full-year estimates.

One grains analyst said, "The increase in Chinese imports is likely lagging what is really going to happen."

USDA increased its forecast for global corn consumption by 5.9 million to 878 million tons, citing China's growing needs for animal feed and rising ethanol production.