

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Claas #3 in Combines?
- Weather & Buying Plans

Drought Impact on Equipment Sales 'Moderate' This Year, 'Slight Decline' in 2013

USDA's latest World Ag Supply & Demand Estimates (WASDE) on August 10 further confirmed what most farmers, dealers and equipment manufacturers already knew: 2012 will be a lousy year for crops, but fairly decent for farm incomes mostly due to rising commodity prices and the high use of crop insurance.

After studying the history of equipment sales following a difficult weather year for farmers, Robert McCarthy, machinery analyst for Baird Equity Research, says that while many industry observers are comparing this year's weather impacts to similar events in 1988, the "2012 drought is more like 2002 than 1988."

In an August 10 report to inves-

tors, McCarthy said, "Drought impact appears moderate, but 2013 ag equipment volume is likely to see slight decline. We forecast that the current drought's impact on crop income will be largely mitigated by crop insurance (using 2002 as a template) and higher crop prices. We continue to expect low-single-digit growth in equipment volume in 2012, followed by a mid-to-high single-digit decline in 2013.

"Applying 2002 loss rates to current crop insurance figures, we calculate that payments to farmers should largely offset the decline in crop income," he says.

WASDE Outlook. As expected, when it issued its latest estimated forecast for crop yields and pricing, USDA

lowered the projected per-acre yields for corn and soybeans and raised its forecasted per-bushel pricing.

Corn yields were lowered to 123.4 bushels per acre from 146 bushels, while 2012-13 pricing was raised to \$7.50-8.90 per bushel from \$5.40-6.40. Soybean yields were also lowered to 36.1 bushels per acre from 40.5 bushels, and the price range was elevated to \$15-17 per bushel from \$13-15.

With much of the harvest underway, overall wheat yield was raised 46.5 bushels per acre from 45.6 bushels, and wheat pricing was raised by 15% to \$8.30.

Historical Perspective. According to McCarthy, 2012 appears to be one of

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Following Solid First Half, AGCO, CNH Cautious About Rest of 2012

After reporting solid, if not impressive, financial results through the first six months of 2012, both CNH Global and AGCO, the number two and three largest manufacturers of ag equipment in the world, are taking a conservative view of sales during the second half of the year.

AGCO saw its North American revenues in the second quarter skyrocket by nearly 86% to \$733 million from \$395 million a year ago. Through the first six months of the year, the company's North American revenues were up more than 72% from \$754 million to \$1.3 billion. Its consolidated revenues in the second quarter rose to \$2.7 billion vs. \$2.3 billion in the comparable period in 2011.

In part, AGCO attributes its strong second-quarter earnings to increasing sales of spray equipment, hay equipment and high horsepower tractors. But it also reports 11% of sales in the period were the result of acquisitions. Most prominent was GSI, the grain storage manufacturer, that AGCO acquired last year. Excluding the benefit of acquisitions and currency translation, North American sales increased 36.4% in the first half of 2012 compared to the same period in 2011.

Despite its stellar performance, AGCO lowered its 2012 revenue outlook to \$10.1-\$10.3 billion from \$10.2-\$10.5 billion. In a conference call with analysts, Andrew Beck, AGCO's CFO and senior vice presi-

dent, said, "In North America, the solid financial position of row-crop farmers and the outlook for farm income above historical averages is expected to mitigate some of the impact of the drought that will reduce crop production this year."

According to Beck, AGCO has 4-5 months of orders in North America and Europe. "For us, this is a good level."

By region, AGCO expects industry sales in North America to be up 0-5%, unchanged vs. prior guidance, and Western Europe to be flat to down 5%, vs. a flat outlook in prior guidance. In South America, management expects industry sales to be flat to down 5%, which is unchanged vs.

Continued on page 2

prior guidance.

On another positive note, Martin Richenhagen, chairman, CEO and president of AGCO says, "We don't see higher dealer inventory numbers in general. So dealer inventories are in good shape. We also don't see any increase in used equipment and we don't see any price deterioration in used either. So the markets are very strong."

Regarding material costs, Beck says the company doesn't anticipate a significant headwind in the second half of the year. "We're not seeing much pressure on material cost. So a small change in pricing is probably not going to affect our overall margin outlook. We're confident and feel comfortable that we'll get the margins that we've forecast for the back half of the year."

Ag Boosts CNH. While CNH's construction equipment (CE) continues to struggle, its ag equipment sales improved overall revenues during the

Past Post-Drought Trends Favorable for Equipment Sales

In a July note to investors, Henry Kirn, analyst for UBS Investment Research, said if past history holds true, equipment sales in 2013 could surprise. According to Kirn, Deere's performance during the 1988 drought implies potential outperformance in the second half of this year.

"While investors are concerned lower yields could have negative impact on equipment demand, 1988 experience would suggest shares can outperform even when yields are drought impaired," says Kirn. "For reference, Deere outperformed S&P by 26% in 1988 and corn rallied 48%, while U.S. row-crop tractor industry unit sales grew 1% in 1988 and 28% in 1989.

"Changes in corn prices have been a reliable coincident indicator of Deere's relative performance since the mid-1970s. Since 1977, corn prices and Deere's performance relative to the S&P 500 have moved in the same direction on a year-over-year basis in 74% of quarters," says Kirn.

second quarter and through the first six months of the year. For the quarter, CNH reported ag revenue of about \$4 billion and CE sales of approximately \$1 billion, up from \$3.85 billion in ag sales a year ago, and down slightly in CE sales vs. the second quarter of 2011.

Overall, CNH's North American ag equipment sales were up by about 5% to \$2.16 billion compared with \$2.06

billion in the second quarter in 2011. For the six months ended June 30, the company's equipment revenues rose to \$9.7 billion compared with \$8.7 billion during the first half of last year, an increase of nearly 11.5%. During the first half of the current year, ag revenues rose a total 19.2%.

Despite a strong showing through the first six months of the year, like AGCO, CNH also lowered its forecast for the remainder of 2012. CNH now sees global ag equipment volumes flat to down 5% in 2012 (was flat to up 5%).

CNH also notes, despite a mixed economic climate in certain operating regions and the poor climatic conditions in the U.S., the company expects 2012 revenues to increase about 5%, implying revenues of up to \$19 billion.

Ann Duignan, analyst for JP Morgan, notes in a report to investors on August 1, "In North America, management revised its outlook for less than 40 horsepower tractors to down 5% from flat and combines to flat to down 5% from flat, but management notes that the drought could have an impact on this sector — particularly the hay and forage segment. The impact of the drought is likely to be manifested first in used equipment sales and prices; that will then influence any marketing programs necessary to reduce used equipment fleets."

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AGCO Regional 2Q Net Sales – 2012 vs. 2011

(millions \$)	3 Months Ended		
	June 30, 2012	June 30, 2011	% Change
North America	\$733.4	\$394.8	+85.8%
South America	\$448.5	\$496.8	-9.7%
EAME*	\$1,406.9	\$1,400.2	+0.5%
Asia/Pacific	\$101.3	\$66.8	+51.7%
Net Sales	\$2,690.1	\$2,358.6	+14.1%

*EAME = Europe/Africa/Middle East

Source: Company Reports

CNH Regional 2Q Net Sales – 2012 vs. 2011

(millions \$)	3 Months Ended		
	June 30, 2012	June 30, 2011	% Change
North America	\$2,166.0	\$2,064.0	+4.9%
Latin America	\$629.0	\$717.0	-12.2%
EAME & CIS*	\$1,779.0	\$1,693.0	+5.0%
Asia/Pacific	\$452.0	\$407.0	+11.1%
Total Net Sales	\$5,026.0	\$4,881.0	+2.9%

*EAME = Europe/Africa/Middle East & Confederation of Independent States

Source: Company Reports

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Rocky Mountain Revenues Rise 16.9% in 2Q

On August 13, Rocky Mountain Dealerships (RME) reported that revenues for the second quarter 2012 increased by 8.8% to \$225.7 million, while revenues through the first six months of the year rose 16.9% to \$417.8 million compared to the same periods of 2011.

Its gross profit improved during its most recent reporting period to \$34.2 million (15.2% of sales) from \$31.1 million (15.0% of sales). Through the first six months of this year, gross profits increased to \$61.9 million (14.8% of sales) from \$54.9 million (15.4% of sales) year-over-year.

Rocky is one of Western Canada's largest agriculture and construction equipment dealerships with 38 branches throughout Alberta, Saskatchewan and Manitoba. Its primary ag equipment brand is Case IH.

In his analysis of Rocky's most recent performance, Ben Cherniavsky, analyst for Raymond

James, reports, "Revenues of \$226 million fell short of our \$236 million forecast, but increased 9% year-over-year resulting from favorable weather, strong commodity prices and a general improvement in economic conditions. Gross margin of 15.2% improved a modest 20 basis points year-over-year and inched past our 14.6% forecast."

According to Cherniavsky's August 13 note, Rocky's management indicated that margins continue to be hampered by efforts to reduce used equipment inventory levels and a shortage of skilled technicians.

"SG&A of 10.8% of sales was lower than our forecast, but increased year-over-year due to ongoing rebranding efforts. Adjusted EBIT and EBIT margin of 7.6 million and 3.4%, although slightly ahead of our respective forecasts, were essentially unchanged from last year. Thus, our investment thesis remains the same:

we continue to view Rocky as largely a 'show me' story.

"We applaud management for the increased focus on integration and execution, but believe that results to-date, especially gross margins, have been generally uninspiring," says Cherniavsky.

"The changes that are being implemented at the company — revamped sales incentives, more disciplined inventory management, more orchestrated sales and marketing efforts — involve a cultural transformation in many respects.

"In our view, they will take more than just a couple of quarters to bear fruit. Thus, our outlook remains hopeful for the long-term but still a bit cautious in the near-term. This near-term caution is accentuated by drought conditions in the U.S. which could lead to pricing pressure on the used market if idle ag equipment makes its way north of the border."

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FARM MACHINERY TICKER (AS OF 8/13/12)

Manufacturers	Symbol	8/13/12 Price	7/10/12 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$34.07	\$38.00	\$42.15	\$28.11	17.29	38,832	424.89M
AGCO	AGCO	\$44.55	\$43.73	\$54.00	\$30.11	6.30	1,456,060	4.33B
Alamo	ALG	\$30.02	\$31.85	\$34.23	\$19.71	10.72	37,531	357.87M
Art's Way Mfg.	ARTW	\$6.30	\$7.50	\$9.69	\$5.02	9.89	7,517	25.42M
Blount Int'l	BLT	\$13.09	\$14.20	\$17.62	\$12.46	16.57	288,836	641.95M
Buhler Industries	BUI	\$5.37	N/A	\$5.69	\$5.04	7.67	1,038	134.25M
Caterpillar	CAT	\$88.61	\$80.27	\$116.95	\$67.54	9.91	7,603,410	57.89B
CNH Global	CNH	\$41.57	\$38.89	\$47.74	\$22.19	9.17	459,494	10.02B
Deere & Co.	DE	\$79.76	\$78.60	\$89.70	\$59.92	11.06	3,889,020	31.72B
Hemisphere GPS	HEM	\$0.67	\$0.285	\$1.14	\$0.56	N/A	75,664	28.64M
Kubota	KUB	\$48.05	\$45.60	\$51.97	\$36.81	15.58	17,716	12.07B
Lindsay	LNN	\$71.99	\$68.64	\$74.62	\$46.03	22.76	172,184	915.35M
Titan Int'l	TWI	\$21.87	\$24.48	\$29.95	\$12.97	9.75	878,323	924.97M
Trimble Navigation	TRMB	\$46.10	\$44.87	\$55.95	\$31.88	35.93	1,078,540	5.79B
Valmont Industries	VMI	\$127.27	\$126.82	\$135.68	\$73.00	12.59	177,069	3.39B
Retailers								
Cervus Equipment	CVL	\$20.25	\$18.70	\$20.50	\$13.60	14.89	11,371	N/A
Rocky Mountain Dealerships	RME	\$11.80	\$11.61	\$12.13	\$8.35	9.67	17,705	221.60M
Titan Machinery	TTTN	\$28.50	\$26.64	\$36.92	\$15.58	13.44	458,686	590.58M
Tractor Supply	TSCO	\$90.92	\$83.60	\$101.20	\$53.11	25.68	1,245,880	6.45B

the most difficult farming years experienced in the last three decades, with some comparing current conditions with the 1988 drought, which in itself has been the worst drought since the Great Depression. "The comparison likely stems from a look at the percentage of the U.S. experiencing drought conditions (35%) which is actually slightly higher than 1988's 33.6%," he says.

From a historical perspective, McCarthy points out that, from a total amount of precipitation experienced on a year-to-date basis, 2012 is only the 13th driest year, as the average of 13.11 inches of rain year-to-date is meaningfully higher than the 11.12 inches experience in 1988, and largely in line with the 13.07 inches experienced in 2002.

"Recent crop progress reports also support the idea that 2012's drought is actually closer in intensity and damage to 2002 than it is to 1988," he says. "Using 2002 as a guide, impact on net crop income appears manageable at this point. Using historical crop harvesting and yield data combined with current planted acreage, price and farming cost structure, we estimate the impact on Big 3 (corn, soybeans and wheat) cash receipts will likely be muted (down about 1%), while crop income is estimated to decline about 29% before crop insurance indemnities."

Insurance Impact. McCarthy points out that both 1988 and 2002 did not result in significant, protracted declines in equipment volumes. "We forecast very low-single-digit growth in volume in 2012, followed by a mid-to-high single-digit decline in 2013."

In his analysis, McCarthy asserts that crop insurance is a far more popular risk management tool than it was in 2002 or 1988. He says, Secretary of Agriculture, Tom Vilsack, estimates that roughly 85% of today's farmers have crop insurance, compared to just 25% in 1988. The USDA Farm Program Atlas data shows that during 2009, the most recent data available, 90% of planted corn acres had some level of crop insurance, with 87.5% for soybeans and 96% for wheat.

In fact, according to the Federal Crop Insurance Corp. and the USDA, total crop insurance liabilities have

Estimating Corn Crop Insurance Payments		
	2002	2012
Crop Insurance Liabilities	11,423,651,926	46,441,312,029
Premium Paid	909,663,504	3,730,939,496
Indemnity	1,259,784,787	
Loss Ratio	1.385	
Payout as % of Liabilities	11.03%	
2012 payout (same loss ratio)		5,166,944,477
2012 payout (same % of liabilities)		5,121,484,685
Source: Federal Crop Insurance Corp., RW Baird Estimates		

Estimating Soybean Crop Insurance Payments		
	2002	2012
Crop Insurance Liabilities	6,917,869,374	22,080,399,749
Premium Paid	495,054,710	2,002,487,198
Indemnity	488,738,314	
Loss Ratio	0.987	
Payout as % of Liabilities	7.06%	
2012 payout (same loss ratio)		1,976,937,492
2012 payout (same % of liabilities)		1,559,951,014
Source: Federal Crop Insurance Corp., RW Baird Estimates		

Estimating Wheat Crop Insurance Payments		
	2002	2012
Crop Insurance Liabilities	3,432,038,134	10,204,329,465
Premium Paid	423,119,568	1,725,889,610
Indemnity	862,716,707	
Loss Ratio	2.039	
Payout as % of Liabilities	25.14%	
2012 payout (same loss ratio)		3,518,990,644
2012 payout (same % of liabilities)		2,565,078,000
Source: Federal Crop Insurance Corp., RW Baird Estimates		

grown from roughly \$20 billion in 2001 to \$102.6 billion in 2012. "Some of the increase is related to higher overall commodity prices, however the USDA is also pointing to improved coverage," he says. "The Federal Crop Insurance Corp. reports aggregate Big 3 crop insurance liabilities of \$78.7 billion for 2012."

Using 2002 as a potential guide in assessing the overall level of payments applying similar loss ratios and payouts as percentage of total liabilities for each individual crop, McCarthy developed the tables above to illustrate the implications for equipment sales following the current drought.

According to McCarthy, farm net cash income actually increased slightly

in 1988 — \$52.5 billion vs. 1987's \$52.1 billion — as crop receipts rose 8.8% helped by higher prices. Following the 2002 drought, crop receipts rose as well (+8.3%) but net cash income declined 15.7% due to higher costs as a result of higher planted acreage.

"In 1988, sales of tractors over 40 horsepower increased 7.6% after a prolonged period of decline in the early 1980s, while combine sales decreased 16.6%," McCarthy reports. "During 2002, sales of tractors over 40 horsepower declined 5.7% with combines declining a more meaningful 21.6%. Importantly, tractor sales increased the following years — in both 1989 and 2003 — while combine sales only increased in 1989." **AEI**

New Capacity Eases Ag Tire Shortage

The acute tire shortage that plagued ag equipment manufacturers and delayed equipment is waning as tire makers have added U.S. production capacity in the past year.

At the same time, the tire shortages "are not nearly so pronounced at present," says Andrew Mabin, marketing and sales director and vice chairman of the board for Mitas.

In 2004, Mitas — whose name comes from a combination of the words Michelin and Veritas — acquired the ag business unit from Continental A.G. The company manufactures and sells tires under three brand names: Mitas, Cultor and Continental, under license.

"Demand, though high, has slackened a little (new equipment sales impacting on replacement, weather conditions). Investments are improving capacity so shortages are contained to a few sizes where capacity is limited and issues caused by specific manufacturers which has a knock on into the market," Mabin says.

In April, Mitas opened its newest tire factory in Charles City, Iowa — the first U.S.-based factory for the Czech Republic-based company. The new plant makes all common agricultural tire sizes and will eventually produce sizes of up to 54-inch diameter and 1,200 mm width. It is expected that the last curing press will be installed by mid-2013. Mitas says at its peak the Charles City plant will produce 13,500 metric tons of tires per year. In addition to the new Charles City plant, Mitas also operates three production facilities in the Czech Republic and one in Serbia. It has a global sales and distribution network.

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Titan International Introduces Kevlar Ag Tires

Genetically modified crops are good for yields, but bad for tires. The stubble from the tougher stalks is causing an expensive problem for farmers — punctured tires. Titan International is responding to the problem by developing a tire with four layers of Kevlar, the same synthetic material used in bulletproof vests.

According to a *Wall Street Journal* report, "About 3 million tires a year are sold in the U.S., with sales expanding annually by an average of about 4% since 2007, fueled by steadily rising sales of farm equipment."

Titan has been working on the tires since June of 2010, and made them available for purchase in February of this year and has been showing them at trade shows since then. Currently, only the 10.00-15 size is available, but 9.5L-15, 11L-15 and 12L-15 will be available, according to Scott Sloan, product engineering manager for Titan International. Additionally, Sloan says since they have the existing molds already they are capable of making additional sizes if requested.

The new Kevlar tires cost 40-50% more than a comparable tire, according to Sloan. However, he says the high price hasn't been an issue for farmers. "As long as it fixes the problem, they'll spend the money on it."

Currently, John Deere along with some shortline manufacturers are the only OEM's looking into the Kevlar tires, and Sloan says depending on how quick they respond it may be at least two years before the OEMs start offering them. Even then, the new tires will most likely only be offered as an option. "Our initial strategy is to get them into our tire dealers and let them offer it as an option for the end users and implement dealers," Sloan says.

"We wanted to improve our service rate to the customer and reduce lead times," explains Mabin. "Supplying from Europe means higher inventories and longer lead times both of which we can reduce dramatically by producing locally."

In addition, Mabin says producing in Iowa means the company can focus on the North American market's needs with minimal influence from Europe.

Bridgestone Americas is also working to meet the growing demand for agriculture tires. In June the company announced plans for an additional \$74 million investment to further expand capacity at its primary agricultural tire manufacturing facility in Des Moines, Iowa. Combined with the ongoing \$77 million investment project announced in March of 2010, Bridgestone Americas will invest a total of \$151 million in the facility.

According to the company, the investment at the Des Moines facility will be used to enhance the core manufacturing areas of tire building, curing and necessary support equipment, and will allow the company to meet the growing demand for Firestone-brand radial farm tires both in North America and globally. These improvements are expected to be completed in 2013.

Mabin says his overall view of the North American market for sales of farm machinery for the next 1-3 years is positive. "The current view is a very positive one with all the trends indicating a continued strengthening of the ag business. Commodity prices remain high, the drought of course is a major problem in certain areas, so a negative, but the overall mood of the business is good," he says. "The OEM's are looking at future sales remaining at similar levels to 2012."

He went on to say, however, that the reaction and mood will be better determined at the Farm Progress Show later this month.

AEI

Dealers See 4% Growth for Full-Year 2012

For 2012, dealers slightly raised their sales forecast and expect 4% sales growth for the full year vs. 3% in May. At the same time, the *Ag Equipment Intelligence*-Cleveland Research Co. (AEI-CRC) Dealer Optimism Index, a measure of sentiment among dealers compared to the prior month, declined to a net 23% of dealers reporting they have a less optimistic outlook now vs. a net 9% last month (14% are more optimistic; 49% same; 37% are less optimistic).

These results are published in the July 2012 Dealer Trends & Business Outlook report based on responses from 211 North American farm equipment dealers.

AEI

Claas Intends to Build on NA Combine Sales Momentum

Having recorded four years of buoyant annual growth, executives at Claas in Germany are confident that its Omaha, Neb.-based operation will continue to capture a growing share of the North American combine market — and are looking ahead to the day production will need to expand to meet demand.

“Over the past four years we have enjoyed 20% annual revenue growth in North America, although from a relatively low level, of course,” says board spokesman Dr. Theo Freye. “But despite our strong performance over this period we can still grow further.”

As the executive who launched the Claas initiative in North America, Freye retains a keen interest in the operation and also in a market that he says has come to embrace harvester technology. That is good news for a manufacturer with a reputation built on innovative technologies as it vies with New Holland and AGCO for the number three position in the U.S. behind Deere and Case IH.

“Our objective with the Lexion has always been to produce the most efficient harvesting machine, and large farmers operating Class 8, 9 and 10 combines are now much more open to using technology to get greater productivity,” says Freye. “We are getting good repeat business, but we have to prove to customers that Claas

combines are worth operating over our competitors’ machines.”

Recent initiatives such as the Lexion Field Ready Reconditioned program and launch of the HarvestingWord.com used machinery

“We love to work with dealers, but if necessary we will set up our own [network] to maintain uninterrupted coverage...”

website by a number of Claas dealers are designed to promote and bolster confidence in used Claas hardware and keep the maximum population at work in the field.

Claas isn’t averse to investing in distribution when necessary. Last year, the Nebraska Harvest Center was formed as a 100% subsidiary to fill a gap in the company’s distribution in the U.S. With headquarters in Omaha, facilities in Seward and Wayne handle service and parts in eastern Nebraska.

The former dealer, Cat distributor NMC, continues to provide service cover across the west from its branches in North Platte and Gering.

“A year on, Nebraska Harvest Center is very well accepted,” says

Freye. “We have a lot of experience in retail and service support through similar ventures in Europe, particularly in France and Great Britain.

“We still have some very strong Caterpillar and independent dealers in our U.S. network,” he adds. “We love to work with dealers, but if necessary we will set up our own [network] to maintain uninterrupted coverage.”

He also champions the continued production of Claas combines in North America. “It improves product supply and makes it easier to configure machines for what growers want,” he says.

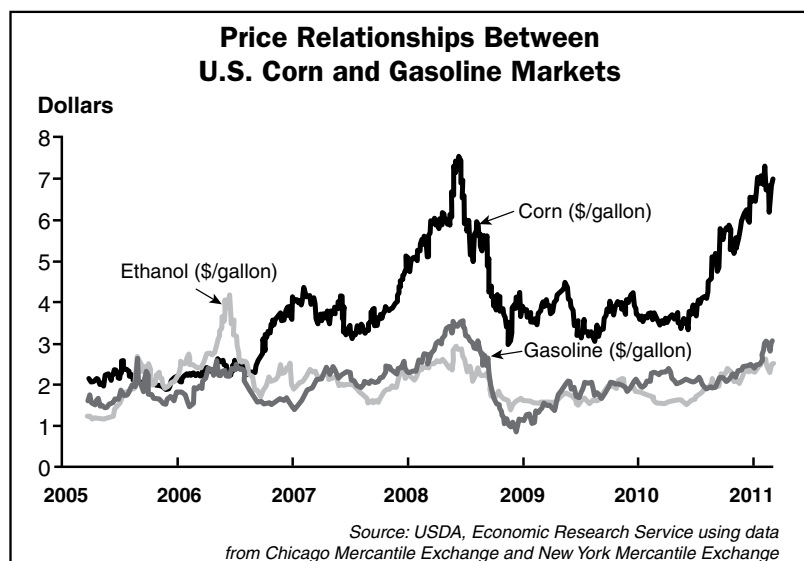
Leif Magnusson, president of Claas of North America Inc., is hopeful that within five years Claas sales will grow enough to warrant doubling the size of its manufacturing and assembly facility, which currently employs 100 staff completing the assembly of Lexion combines.

Core technology assemblies continue to be shipped from the headquarter’s plant in Germany but an increasing proportion of local content currently stands at around 40%.

“Our goal now is to keep increasing local content, and with that we’re looking for suppliers all the time in this region,” Magnusson said during a visit to the plant by prospective customers last month. **AEI**

Ethanol Strengthens Link Between Ag and Energy Markets

Historically, the correlation between agricultural prices and energy prices was weak and primarily reflected the role of energy as an input in agricultural production. However, the growing use of corn to produce energy has strengthened the link between these two markets. A recent study by an ERS economist found that price relationships between the U.S. corn and gasoline markets strengthened significantly after March 2008 and continue to be highly correlated. From March 2008 to March 2011, ethanol supply and demand accounted for about 23% of the variation in the price of corn, while corn market conditions accounted for about 27% of ethanol’s price variation. At the same time, about 16% and 17% of gasoline price variation can be attributed to shocks to ethanol and corn markets, respectively. The impacts of corn and ethanol prices on gasoline price volatility are surprisingly large given that ethanol is only a small portion of the overall energy market. **AEI**



Equipment Sales Post Double-Digit Gains

"U.S. and Canada large tractor and combine retail sales remained robust in July, increasing 25% year-over-year following a 25% increase in June. Combine sales continue to rebound, increasing 13.6% in a seasonally important month, in part benefiting from easier comps," Robert McCarthy, analyst for RW Baird said in an August 10 note. "All other major equipment categories posted positive growth during the month. Increasing inventory levels across all equipment types merit some attention, but are supported by healthy sales trends in all categories."

- Combine retail sales posted the second monthly year-over-year increase in a row after six months of declines, benefiting in part from an easier prior-year comparison as well as major OEM product deliveries. Combine sales increased 13.6% year-over-year following June's 32.7% increase.

- Last-three month (L3M) combine sales increased 10% on a year-over-year basis after 13 straight months of negative comparisons. U.S. combine inventories were 18.4% higher year-over-year in June vs. up 23% last month. July is a relatively important month for combine sales, accounting for 12.6% of annual sales over the last five years.

- Row-crop tractor sales continue to grow, posting a 33.2% year-over-year increase up from the 24.5% in June; L3M sales increased 26.1%. U.S. row-crop tractor inventories increased 21.3% year-over-year in June vs. a 24.6% increase in May. July is seasonally unimportant month as far as tractor sales seasonality, typically accounting for 6.9% of annual sales.

- 4WD tractor sales increased 20.8% year-over-year in July, improving from a 17.8% increase in June. U.S. dealer inventories of 4WD tractors increased 27.8% year-over-year in June.

- Mid-range tractor sales accelerated slightly in July, increasing 2.9% year-over-year after a 2.7% increase last month. Compact tractor sales were up 12.3% year-over-year. **AEI**

JULY U.S. UNIT RETAIL SALES



Equipment	July 2012	July 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	July 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,532	6,702	12.4	57,688	53,949	6.9	54,134
40-100 HP	4,385	4,227	3.7	31,273	29,203	7.1	24,156
100 HP Plus	2,428	1,808	34.3	16,016	14,380	11.4	7,477
Total-2WD	14,345	12,737	12.6	104,977	97,532	7.6	85,767
Total-4WD	501	403	24.3	3,301	3,154	4.7	1,282
Total Tractors	14,846	13,140	13.0	108,278	100,686	7.5	87,049
SP Combines	1,035	854	21.2	4,164	4,940	-15.7	1,674

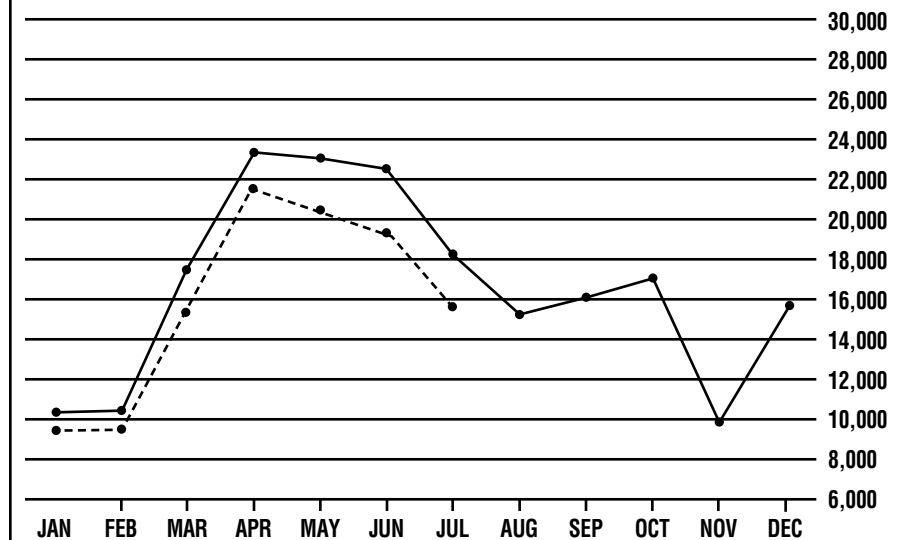
JULY CANADIAN UNIT RETAIL SALES



Equipment	July 2012	July 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	July 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,103	985	12.0	7,258	7,005	3.6	8,246
40-100 HP	469	490	-4.3	3,486	3,451	1.0	3,617
100 HP Plus	335	266	25.9	2,652	2,339	13.4	1,918
Total-2WD	1,907	1,741	9.5	13,396	12,795	4.7	13,781
Total-4WD	51	54	-5.6	838	790	6.1	383
Total Tractors	1,958	1,795	9.1	14,234	13,585	4.8	14,164
SP Combines	311	331	-6.0	1,144	1,396	-18.1	802

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

--- 2012
— 5 year average



—Assn. of Equipment Manufacturers

With Changing Weather Patterns Some Farmers Consider Equipment Changes

No one is more aware of shifting weather patterns throughout the major growing regions of the U.S. As a result, some farmers are purchasing equipment in an attempt to match changing conditions. At the same time, some farmers say they're delaying equipment purchases due to the volatile weather conditions they're seeing this year.

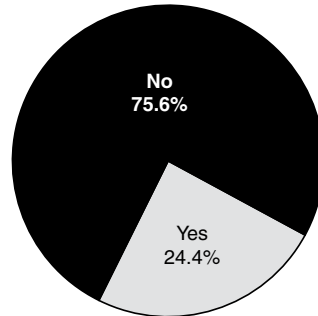
More than 300 farmers responded to an August survey by *No-Till Farmer*, a sister publication of *Ag Equipment Intelligence*, about how weather conditions are affecting their decisions about purchasing equipment. The complete results of the survey will appear in a special report in the September issue of *Farm Equipment* magazine.

Of the 312 total responses, a clear majority (67.3%) of the farmers believe the weather is becoming more volatile.

Changing Purchases. About one-quarter (24.4%) of the farmers surveyed say they're purchasing new or used equipment as part of their weather management strategies. In their commentary about the subject, farmers offered a range of responses to what they consider shifting weather patterns.

One said, he's thinking of employing "less true no-till to warm up soil sooner." Other comments included: "Strengthen no-till practices to conserve moisture" ... "Bigger sprayer to get burn down on in wet springs

Have changes in your weather management strategies resulted in the purchase of new equipment?

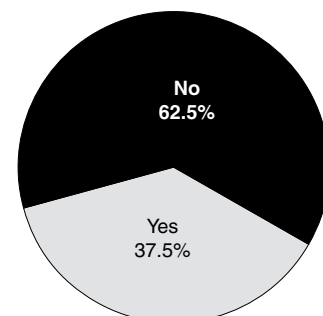


with narrow windows to get the job done" ... "The acquisition of some compost spreaders" ... "Vertical tillage" ... "Larger equipment, i.e. 12 row to 16 row planter, fertility, herbicide and insect management 60-foot sprayer to 100 foot. Can cover more ground quicker" ... "Strip till equipment to complement no till activities" ... "Purchased high clearance sprayer to apply nutrients late season" ... "Installed better depth control on planter."

Delayed Purchases. The survey also asked if weather volatility in their area caused farmers to hold off on an equipment purchase this year? Nearly 38% of the 314 farmers who responded said, yes, they are delaying their machinery purchases for now.

One comment from a Midwest

Has the weather volatility in your area caused you to hold off on an equipment purchase?



farmer summed up much of what we've been hearing lately: "Yes, because I do not know what to do next and I cannot afford to gamble." Other commentary reinforced that farmers may be holding back purchasing new equipment because they're up in the air about what they'll see at the end of the harvest this year. "I'm not sure of yields due to the impact of drought on the livestock industry in my area and on my farm."

Other comments included: "I don't really need to combine" ... "I was looking to purchase a sprayer or build a side dress bar, now I will wait until things even out" ... "No rain no hay, no hay no work, no work no eat, and no \$\$\$ for a new tractor" ... "No grain no cash" ... "Mostly tightening the belt to make sure necessary things are paid for." **AEI**

Cervus Equipment 2Q Revenues Grow 34%

Cervus Equipment, John Deere's largest ag equipment retailer in Western Canada, reported on August 9 that its second quarter 2012 gross revenues rose to \$196.7 million (+34%) from \$147.1 million in the same period of 2011. Net profit for the three-month period also grew by \$1.7 million to \$7.4 million vs. second-quarter 2011 profits of \$5.7 million.

The dealer group also saw EBITDA increase by \$3.4 million or 31.9% to \$14.1 million in the second quarter of 2012 from \$10.7 million reported in the same period of 2011.

Cervus currently has interests in 51 dealerships located in Western Canada, New Zealand and Australia that carry John Deere agricultural equipment, Bobcat and JCB construction equipment, Clark, Sellick, Nissan and Doosan material handling equipment, and Peterbilt transportation equipment.

On a segmented basis, ag revenues increased 12% year-over-year while commercial/industrial (CI) sales rose by 101% year-over-year. "CI growth was driven by an impres-

sive \$30 million contribution from recently acquired Frontier, the Peterbilt truck dealership," Ben Cherniavsky, analyst for Raymond James, said in a note to investors.

"Ag gross margin of 16.6% was flat year-over-year; CI gross margin of 23.4% declined 260 bps year-over-year due to an unfavorable sales mix and the inclusion of lower margin Frontier sales. Taken together, consolidated gross margin was 20 bps higher vs. our estimate and year-over-year due to a more favorable weighting toward the higher margin CI business. EBIT margin of 5.7% fell modestly year-over-year and missed our 6.3% estimate," says Cherniavsky.

Cervus stayed active on the acquisition front by acquiring 30% of the shares in Windmill AG Pty. Ltd., an Australian John Deere agriculture dealer. It also acquired the remaining 39.7% interest in Agriturf Ltd. that it did not already own, and entered into agreements to purchase five John Deere dealership branches in New Zealand. **AEI**