From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

September 15, 2012
Vol. 18, Issue 9

- Kuhn-Krause Growing
- Great Plains Expands
- Brazil-U.S. Gap Closing

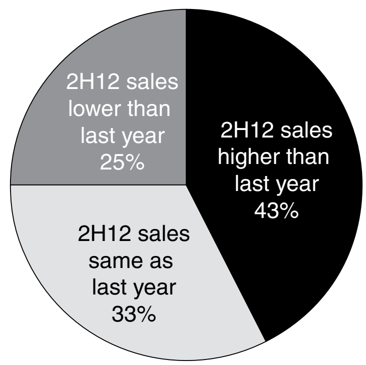
Dealers See Strong Finish to 2012, But Guarded About 2013

As farmers begin seeing the impact of carrying crop insurance on their drought-plagued crop yields, the dour attitudes of mid-summer are turning far more positive. As a result, most dealers are encouraged that fourth-quarter spending on equipment will rival that of the last quarter of 2011. But the dealers' view toward 2013 sales is more subdued — but remains positive.

According to the most recent UBS Global Equity Research survey of farm equipment dealers, 43% expect second-half sales to be higher than last year, 25% are anticipating lower sales in the second half vs. 2011, and 33% see sales coming in at about the same level as the second half of last year.

Continued on page 8

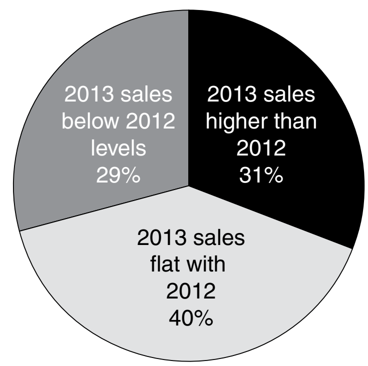
Dealers' Expectations for 2H 2012 Sales



Source: UBS Agricultural Dealer Survey – September 2012

Dealers see second half 2012 machinery sales to be above the second half 2011.

Dealers' Expectations for 2013 Sales



Source: UBS Agricultural Dealer Survey – September 2012

Dealers expect 2013 equipment sales to reach or surpass 2012 levels

Lower Margins, Drought Concerns Weigh on Titan Machinery's 2Q Earnings

Despite a revenue increase of 32% in its second quarter ended July 31, Titan Machinery (TITN), pressured by tight margins and farmer uncertainty caused by the widespread drought throughout the country's major growing regions, saw its profits for the period fall by 17%. As a result, the company lowered its outlook for net income for the full-fiscal year.

Titan, which is Case IH's largest ag equipment retailer, with 99 locations and two outlet stores in nine states, issued its quarterly earnings report on September 10. The company also retails construction equipment of various brands, as well as operating 12 European dealerships in Romania and Bulgaria.

While total revenues for the period rose to $410.1 million vs. $310.8 million for the second quarter of last year, net income slipped to $5.21 million compared to $6.29 million for the same period of fiscal 2012.

Titan's gross margin narrowed to 17.2% from 18%, while equipment revenue, the company's major revenue producer, jumped 36%. Its ag equipment sales rose 26%, but segment earnings fell by 3.3%. Construction equipment sales rose by 59%, while its profits increased 9%.

Margin Squeeze. Titan's second-quarter results were held back by weak, drought-related farmer sentiment and a competitive retail environment that pressured equipment margins in the ag segment, according to Rick Nelson, analyst for Stephens.

"Margin pressures were most severe in used equipment. We learned that out-of-market dealers in more heavily drought stricken areas were advertising equipment in Titan's footprint. Sluggish economic activity in metro areas and reduced public spending have also pressured equipment margins in the construction segment," Nelson says in a September 11 note.

"Titan chose to price with the market in order to manage inven-

Continued on page 2

tory levels and maintain market share. Going forward, Titan plans to reduce its new equipment inventory. It is currently locked into production slots from CNH that were set 12 months ago and therefore expects new inventories to peak in the third quarter. The company's long-term goal is to reach a 3x inventory turn and to use pre-sale marketing once inventories are balanced," Nelson says.

Titan's inventories were up from $622.5 million a year ago and up from $748 million in January to $938.3 so far this year. Part of that increase ($40 million) resulted from new acquisitions, according to Nelson.

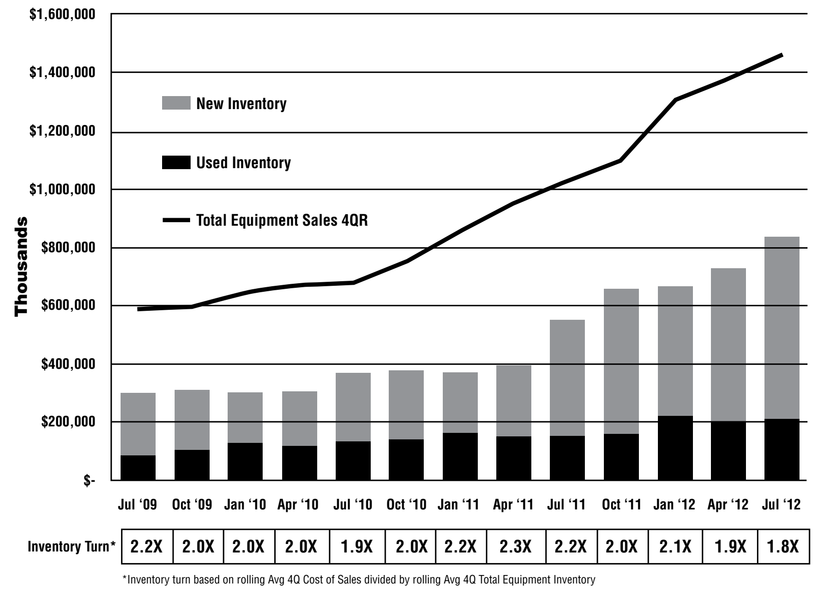
Revised Outlook. Titan reduced its full-year earnings forecast, but maintained its revenues outlook for the year. The company still expects overall revenues to come in between $1.95–2.1 billion, but cut its projections for net income to $44.3–48.3 million from $53.8–58 million.

"Our model calls for agriculture segment organic growth of +12.6% vs. our prior +13.5% estimate," Robert McCarthy says in a note. "We note that management's same-store guidance of +3-8% is a measure that does not include partial quarter contribution from acquisitions to organic growth, and typically understates organic growth compared to our calculations.

"On an apples-to-apples basis, our organic growth estimate appears above the midpoint of management's guidance. While second quarter 2013 segment organic growth was largely in line with our expectations, management commentary pointing to a relatively more challenging pricing environment in used equipment has resulted in slightly lower growth assumptions for both the third and fourth quarters of 2013, as well as lower pretax margin assumptions," says McCarthy.

"While drought as well as the absence of incentives, such as bonus depreciation, could result in slight declines in fiscal year 2014, equipment volumes — our model embeds low single-digit declines — equipment utilization next year should continue to increase, helped by high crop prices, thus generating demand, and growth, for parts and service," McCarthy says. AEI

Titan Machinery Inventory Analysis
July 2009 – July 2012



Titan Machinery's long-term goal is to reach a 3x inventory turn and to use pre-sale marketing once its inventories are balanced, according to Rick Nelson, analyst for Stephens.

Titan Machinery — 2Q & Six-Month Revenue & Segment Analysis
(in millions of $)

Revenue	2Q FY13	2Q FY12	Change	1st 6 Mos. FY13	1st 6 Mos. FY12	Change
Total Revenue	$410.1	$310.8	+31.9%	$831.8	$629.0	+32.2%
– Equipment	$306.2	$225.3	+35.9%	$628.7	$474.5	+32.5%
– Parts	$57.9	$49.3	+17.5%	$116.7	$91.2	+28.0%
– Service	$30.5	$25.4	+20.0	$60.2	$46.4	+29.9%
– Rental & Other	$15.5	$10.9	+42.8%	$26.1	$16.9	+54.3%
Segment						
– Ag	$410.1	$310.8	31.9%	$696.6	$553.3	+25.9%
– CE	$95.3	$59.8	+59.3%	$176.9	$104.0	+70.1%
Pre-Tax Income	$8.8	$10.4	–5.4%	$21.1	$22.6	–6.5%
– Ag	$10.6	$10.9	–3.3%	$24.9	$23.9	+4.2%
– CE	$0.63	$0.58	+9.0%	$0.2	$1.2	–79.8%

AG EQUIPMENT INTELLIGENCE is published monthly for the farm equipment industry by Lessiter Publications Inc., 225 Regency Ct., Suite 100, Brookfield, WI 53008-0624. Please send any address changes as soon as possible to the address shown above.

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Kuhn Acquisition of Krause is Paying Off

In a first half-year characterized by a worldwide market environment with varying levels of demand, Kuhn Group achieved a marked increase in sales and operating profit.

According to an interim report from Kuhn parent Bucher Industries, demand remained buoyant in North America and northern Europe, but experienced a downturn in southern Europe where farmer confidence has been hit by national debt concerns.

In Eastern Europe, where a marked recovery in sales has been seen over the previous two years, the report notes the first signs of a more restrictive lending climate for both dealers and farmers are emerging.

For the January to June period, Kuhn Group recorded a net sales rise of 20.4% over the year prior to the equivalent of $715.5 million. Even when adjusted for currency and acquisition influences, the percentage increase amounts to a near-18% rise. Pre-tax profit grew 26.4% while operating profit as EBITDA rose 21.7%.

"Factors contributing to this success were the high level of capacity utilization, newly launched products and a transparent pricing policy based on continuity," says Bucher CEO, Philip Mosimann. "Thanks to intensive collaboration with distribution partners, it was possible to maintain inventories at a normal level."

The Kuhn Krause unit, bought in May 2011, contributed $40 million to revenues in the first six months and developed "very satisfactorily" while working at the limits of production capacity, says Mosimann.

Restrictions should ease next year after a $5 million investment (including $3 million in the current financial year) allows a significant increase in output, as Kuhn Krause president, Keith Whitaker, explains.

"The 70,000 square-foot building, due to be completed in October, represents a 40% increase in our production area so it's a very significant investment, especially in relation to our own investments over the years as an independent company," he told *Ag Equipment Intelligence*. "The new production machinery and assembly area will improve efficiency and quality as well as capacity, with new, state-of-the-art technology and use of lean manufacturing strategies.

"Becoming part of the Kuhn Group has presented distribution opportunities with dealers already handling its hay products in areas where they can also sell tillage equipment," Whitaker adds. "But due to capacity constraints, we've not been able to act on those opportunities."

Recruitment at the expanding Hutchinson, Kan., plant continues. "Since May last year, we've recruited 60-65 extra staff and we'll be looking for more as the new production facility is readied," says Whitaker. AEI

FARM MACHINERY TICKER (AS OF 9/12/12)

Manufacturers	Symbol	9/12/12 Price	8/13/12 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$33.79	$34.07	$41.95	$28.11	19.31	45,397	421.40M
AGCO	AGCO	$44.80	$44.55	$54.00	$30.11	6.33	1,268,350	4.36B
Alamo	ALG	$31.29	$30.02	$34.23	$19.71	11.18	29,941	373.63M
Art's Way Mfg.	ARTW	$6.22	$6.30	$9.69	$5.02	9.76	7,609	25.10M
Blount Int'l	BLT	$13.91	$13.09	$17.62	$12.46	17.61	259,302	682.16M
Buhler Ind. (as of 9/10)	BUI	$5.55	$5.37	$5.69	$5.04	7.03	1,766	138.75M
Caterpillar	CAT	$89.12	$88.61	$116.95	$67.54	9.97	7,294,840	58.22B
CNH Global	CNH	$42.07	$41.57	$47.74	$22.19	9.28	414,348	10.14B
Deere & Co.	DE	$78.79	$79.76	$89.70	$59.92	10.52	4,241,650	30.86B
Hemisphere GPS	HEM	$0.73	$0.67	$1.14	$0.56	N/A	76,616	48.38M
Kubota	KUB	$50.19	$48.05	$51.97	$37.65	16.27	19,038	12.61B
Lindsay	LNN	$69.70	$71.99	$74.62	$46.03	22.04	182,880	886.24M
Titan Int'l	TWI	$19.95	$21.87	$29.95	$12.97	8.89	768,291	843.77M
Trimble Navigation	TRMB	$51.47	$46.10	$55.95	$31.88	40.12	817,842	6.47B
Valmont Industries	VMI	$132.31	$127.27	$135.68	$73.00	13.09	156,261	3.52B
Retailers								
Cervus Equipment	CVL	$20.20	$20.25	$20.90	$13.60	14.85	15,146	N/A
Rocky Mountain Dealerships	RME	$11.05	$11.80	$12.13	$8.35	10.42	19,760	207.56M
Titan Machinery	TITN	$19..37	$28.50	$36.92	$15.58	9.41	593,614	407.37M
Tractor Supply	TSCO	$98.50	$90.92	$101.28	$58.49	27.82	919,670	6.98B

Worldwide Ag Equipment Sales Uneven So Far in 2012

Considering the drought and other worries U.S. farmers have seen throughout the growing season, North American retail sales of farm tractors have started off the second half of 2012 surprisingly strong. This hasn't been the case in overseas markets.

The Assn. of Equipment Manufacturers reported that during the January to July period of this year, total U.S. farm tractor sales were up 7.5%, while sales of combines were down by nearly 16% compared with the same seven-month period of 2011. AEM reports a similar trend was seen with Canadian sales of tractors and combines, with total tractor sales up 4.8% for the period and combine sales declining by 18.1%.

Europe & CIS. The latest figures from VDMA (German Engineering Federation) and reported in a note to investors by North America Equity Research of JP Morgan, sales of farm machinery throughout Europe and the Commonwealth of Independent States is mixed throughout various regions.

In Germany, tractor registrations were up 7% year-over-year in June, after a down month in May (-8%) and are up 6% year-to-date, after a 26% increase in 2011. Ann Duignan, machinery analyst for JP Morgan, reports that Deere's year-to-date share declined 40 basis points (bps) to 20.4%, as registrations declined 6% for the brand in June, after a 30% decline in May. AGCO retained its overall top share year-to-date, up 120 bps year-over-year to 28.5%. CNH lost share in 2011, from 15.8% in 2010 to 13.7%; however, the company's brands recorded a 260 bps increase in May year-to-date, including 130 bps for Case IH/Steyr and 130 bps for New Holland.

Tractor sales growth has begun to moderate in both France and Russia, according to VDMA and JP Morgan. In France, tractor sales increased 8% in June and 4% in May, after 18% growth during the first four months of the year and +20% in 2011; among major categories, the largest increase was in telescopic handlers at +47%.

In Russia, tractor sales increased 15% year-over-year in May, with the strongest growth in the over-40 horsepower category (+49%), while sales in the over-100 horsepower were up 24%. Combine sales declined 1% year-over-year in May, after growing 4% in January through April in Russia.

Registrations declined in June in Great Britain and the Netherlands. In Great Britain, a smaller ag equipment market, tractor registrations declined 23% year-over-year in June, the first decline since July 2011. The growth rate in the U.K. has been declining through much of this year. Meanwhile, in the Netherlands May tractor sales were down 4% year-over-year, but are up 13% year-to-date.

Brazil Sales Up. Retail sales of farm tractors and combines in Brazil were strong in July, with tractor sales up by 15% and combines by 3%, according to data from Associação Nacional dos Fabricantes de Veículos Automotores (ANFAVEA).

In July, total farm tractor shipments in Brazil were 5,184 units, up 15% year-over-year vs. up 3% year-over-year in June and down 8% in May; combine shipments were 351 units, up 3% year-over-year vs. up 1% in June and down 36% in May.

"Brazil faced a tough year-over-year comparison in 2011, and tractor sales (in units) declined 7%," says Duignan. "We expect modest growth in 2012 on stronger crop prices and a relatively weak real. Combines were up 17% in 2011, and trends continue into 2012, with sales up 6% year-to-date. Overall, high soybean prices and a weak real are encouraging planting activity for the upcoming season beginning in September and October."

Total tractor unit sales were up 15% year-over-year in July, and have posted increases in only four of the past 22 months. Deere outperformed, with shipments up 40% year-over-year; CNH shipments were up 17%. AGCO, including its Valtra brand, was up 5%.

Deere's tractor market share was 23.3% in July, after 18.9% in 2011. AGCO's share of the tractor market was 48.5% in July, vs. 50.1% in 2011 and 60% at the peak of the cycle. Combine industry unit shipments were up 3% year-over-year in July. CNH combine shipments were down 5% and its July market share was 35.3%, vs. 46.1% in 2011. Deere's combine unit shipments were up 4% to 166 units, slightly outperforming the industry. Deere's July combine market share was 47.3%, but 34.6% year-to-date, vs. 36.1% for calendar year 2011. AGCO's combine shipments were up 22% to 61 units for a market share of 17.4%, according to ANFAVEA and JP Morgan. **AEI**

Is $7.90 Corn Bearish or Bullish?

USDA's most recent World Agricultural Supply and Demand Estimate report did little to clear up the picture about what farmers might do with the bounty they're expected to reap from record-high crop prices.

In its September 12 announcement, the ag agency lowered expected corn yields to 122.8 bushels per acre, down from 123.4 bushels, but raised its ending corn stocks forecast by 13% to 733 million bushels. (Industry consensus was 609 million bushels.) At the same time, it dropped its mid-point forecast for corn to $7.90 a bushel from $8.20.

"Our model now suggests that major-crop cash receipts for 2012-13 is $150.6 billion, up 11% year-over-year," Ann Duignan, analyst for JP Morgan says in a note. "Overall, we believe drought conditions have contributed to a broad down-shift in farmer sentiment that will affect equipment purchases in the near to-mid-term. It remains to be seen whether typical late-year spending on equipment materializes given empty grain bins and an uncertain outlook."

On the other hand, Henry Kirn, machinery analyst for UBS, says, "We remain bullish on North American ag equipment as our channel checks indicate currently strong demand is not a bubble, but rather driven by favorable secular trends that still have legs." (*More detail on the recent UBS dealer survey can be seen on pages 1 and 8 in this issue of AEI.*) **AEI**

Great Plains Continues to Expand U.S. and U.K. Manufacturing Capacity

Investment in new production facilities at Simba, the UK-based cultivation equipment manufacturer acquired by U.S.-based Great Plains Manufacturing in 2010, is bearing fruit.

The same can be said for the company's U.S. operations as it continues to invest in production capacity while introducing new planting, seeding and tillage technology, building on its legacy as one of the largest shortline implement companies in the U.S.

UK Expansion. Projects have been completed to convert a 34,000 square-foot factory building into a modern manufacturing plant and to carry out a major re-design and updating of Simba's existing assembly plant. Production capacity has increased by 40% as a result and the site now employs 25% more staff than before it was acquired by Great Plains.

"This is now the Western European manufacturing and assembly site for the whole of Simba Great Plains," says managing director Colin Adams. "We have recruited suitably skilled employees to take our total staff numbers from just over 80 to well over 100."

He claims "astonishing progress" in the two years since the acquisition, not only in terms of facilities, but also in sales to a wider European market.

"In the U.K., we have our biggest ever order book as farmers capitalize on improved prices to buy equipment that will help keep their costs down," he says. "Elsewhere, the combined Simba-Great Plains range is paying great dividends in other countries of Western Europe and helping us to make significant progress in new export markets across Eastern states."

The commercial launch of the Centurion cultivator drill, designed and developed by an Anglo-American team specifically for Europe, should give the range a further boost, as should the European-spec maize planter due next year. Both were announced during the Great Plains international dealer conference at the company's headquarters in Salina, Kan., in late July.

U.S. Expansion. "You cannot fail to feel confident that the new owners of Simba are committed to the industry," says Graham Main, managing director of British equipment dealer Peacock & Binnington. "Employing 1,400 people across 12 locations, founder Roy Applequist took great pride in showing us his expanding facilities and state-of-the-art new products."

Dealers got to check on the progress of the 63,000 square-foot expansion taking shape at the Number 5 plant in Salina, which will include an advanced paint facility.

Twin-Row & Case IH. Linda Salem, Great Plain's COO, also elaborated on the company's agreement to supply Case IH with twin-row corn planters to be sold through Case IH dealerships beginning in 2013.

Great Plains has been a pioneer in introducing the twin-row concept to North American growers to increase per-acre corn yields. Salem told dealers that working with Case IH is expected to speed up the adoption of the twin-row corn concept, which has been slowly gaining favor throughout the U.S. during the past few years. She also noted that John Deere and Kinze Manufacturing are expected to introduce their own twin-row planters later this year. AEI

Lely Building 'Green Energy Strategy' for Dairy Customers

Ag equipment dealers looking for a new product line could take a leaf out of Lely's book and consider "green energy" opportunities.

The Netherlands-based hay and robotic milking and feeding equipment manufacturer has formed a new division to supply renewable power generation systems to agriculture and pursue a vision of energy-neutral operations on the dairy farm.

"It is our ambition that in 2020, dairy farmers will no longer be energy consumers but energy producers," says CEO, Alexander van der Lely. "Our ultimate goal is to sell the potential production capacity in renewable energy that equals or exceeds the demand for energy from all Lely equipment sold that year."

Lely is investing in two strands of green energy — fermentation of manures and wind power.

The first of those is being pursued through a joint venture formed with a Dutch specialist in process technology. Lely contributes expertise in engineering, production, sales and service to the RED International venture.

The business is commercializing the AgriMoDEM "manure refinery," a compact concept developed by Lely's joint-venture partner, Aircon, that needs only slurry as a feedstock to produce a methane-rich biogas with the quality of natural gas. In addition, it separates nitrogen, potassium and phosphorus, which can be used as fertilizer.

RED International will develop the system into a fully-fledged product, after which it will be supplied and maintained under the Lely brand through the group's regular distribution channels.

For wind power generation, Lely has acquired a small German company that builds and installs wind turbines of high performance relative to their modest size and weight.

Last year, Aircon's 10 kW turbine obtained the UK's MCS certificate issued for micro-generation technologies that meet high standards of performance, durability and noise. Comparison of certification data with three competitors suggest the Aircon 10S design is significantly quieter.

Lely is evaluating distribution options for its Lely Aircon wind turbines. Prior to the acquisition, Aircon worked with some 30 specialist distributors worldwide, including Clean Energy Design, Osterville, Mass., in the U.S. AEI

Brazil Narrowing Ag Production Gap with U.S.

Through the first seven months of 2012, Brazilian farmers purchased nearly 31,000 tractors and 2,700 combines. This compares with the U.S. growers' purchases that amounted to slightly more than 108,000 total tractors and 4,100 combines between January and July 2012. Despite the difference in unit sales of farm equipment, the value and volume of agricultural production in Brazil continues to creep closer to that of the U.S., the world leader in overall agricultural production.

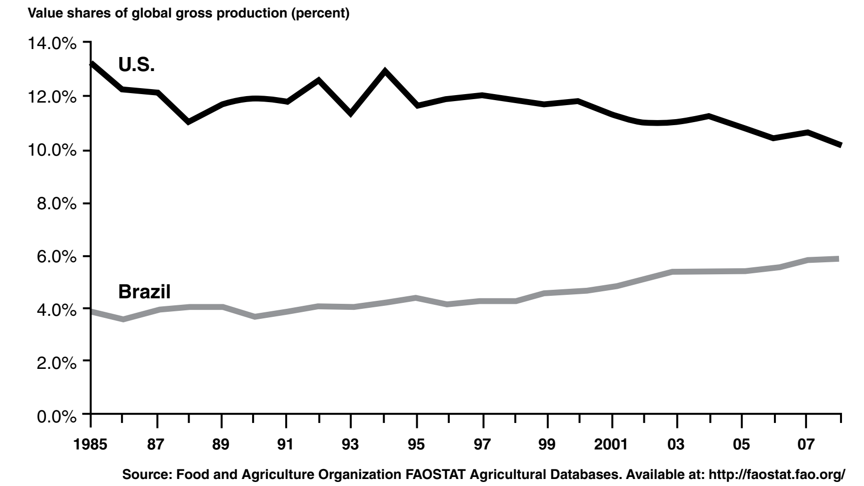
With the world's largest arable land area of 76 million hectares (192 million acres), fifth largest population base and a strong record of agricultural production and exports, Brazil is viewed by many as the latest model of global agriculture, according to USDA.

Over the last quarter-century, Brazil's agricultural production has grown significantly. Using production and trade data from the Food and Agriculture Organization of the United Nations, the USDA's Economic Research Service (ERS) found the total value of the country's agricultural production between 1985 and 2008 grew 3.79%, driving up its share of total global production from 3.9% in 1985 to 5.7% in 2008. This robust production growth has increased Brazil's agricultural exports, with the total value of its agricultural trade growing 7.7% annually between 1985 and 2008.

Soybean Production. Soybean production in recent years best illustrates why Brazil is emerging as a strong competitor to the U.S., and why equipment manufacturers are investing heavily in production facilities in that country.

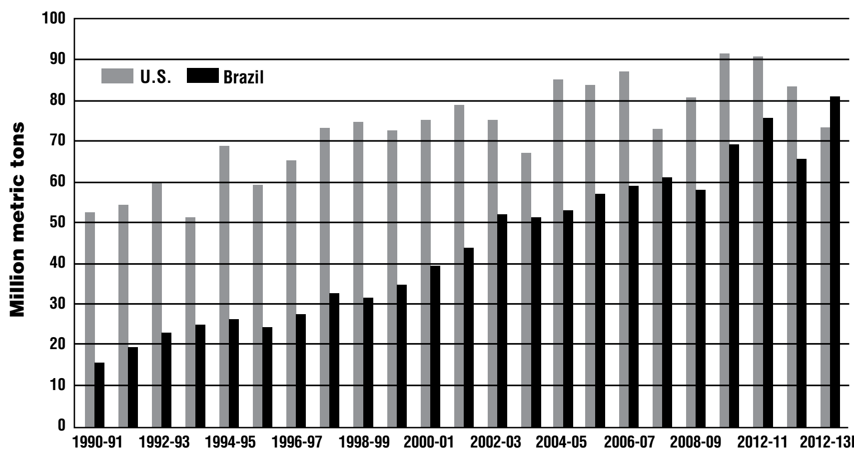
"High soybean prices should encourage Brazilian ag equipment spending in the second half of 2012," Ann Duignan, analyst for JP Morgan, said in a recent note. "In calendar year 2011, tractor sales declined 7% from a record 2010, as subsidies for small horsepower tractors ended. Combine sales (+17% in 2011) reflected strength in the crop sector, particularly strong prices for soybeans and a weaker currency."

Value of Ag Production Brazil vs. U.S.



Total value of Brazil's agricultural production between 1985 and 2008 grew 3.79%, driving up its share of total global production from 3.9% in 1985 to 5.7% in 2008.

Soybean Production – U.S. vs. Brazil



Source: USDA, Foreign Agricultural Service. PS&D Online.

If projections for soybean production are realized, Brazil's 2012-13 soybean crop would be the first ever to surpass the U.S. harvest, pushing its exports to a world-leading 37.6 million tons.

In mid-2011, the Brazilian government passed $54 billion of farm financing packages, which were recently renewed through the end of 2013 with lower interest rates. The BRL/USD exchange rate remains elevated at 2.03. "In general, a stronger dollar aids Brazilian farmers, who are paid in dollars for many crops but incur costs in real, the Brazilian currency," says Duignan.

"We forecast tractor sales to increase 10% in 2012, with combines up 5% as comps get tougher later in the year. The 2012-13 soybean planting season begins in September and October in Brazil, and we believe farmers are likely eager to capitalize on higher bean prices. Harvested area is expected to increase 6%, and production is expected to increase 19%, following a drought-challenged crop last season."

According to USDA, a larger cropland base is projected to raise Brazil's soybean production to 81 million tons — up three million from July's forecast. AEI

Equipment Sales Post Solid Growth in August

North American sales of row-crop tractors and combines rose by 12% year-over-year in August, slowing somewhat from the 25% increase in July. Year-over-year comparisons were positive for all equipment categories, except combines. U.S. sales increased by 23% year-over-year while Canadian sales fell 24%.

"U.S. and Canada tractor retail sales remained robust in August, as row-crop, 4WD, mid-range and compact tractor sales increased 17.2%, 35.5%, 7.9% and 11.1% year-over-year, respectively," Robert McCarthy, analyst for RW Baird, says in a note to investors. "Combine sales fell 1.3% as retail sales in Canada detracted from positive growth in the U.S."

- Retail sales of combines decreased for the first time after two months of positive growth, hurt by weak Canadian sales, which were down 19% year-over-year vs. a 7% increase in the U.S. Sales decreased 1.3% year-over-year following July's 13.6% increase. The last three months (L3M) sales increased 11% on a year-over-year basis following July's 10% rise. August sales accounted for 12% of annual sales over the last five years. Inventories were 1.3% higher in absolute terms in July vs. 18.4% last month.
- Row-crop tractor sales posted a 17.2% year-over-year increase down from the 33.2% increase seen in July; L3M sales increased 24.9%. Inventories increased 24% year-over-year in July vs. a 21.3% increase in June. August is a seasonally unimportant month for row-crop tractor sales, typically accounting for 6.3% of annual sales.
- 4WD tractor sales increased 35.5% year-over-year, improving from a 20.8% increase in July, despite a slightly tougher prior-year comparison. U.S. dealer inventories of 4WD tractors increased 18% year-over-year in July.
- Mid-range tractor sales accelerated in August, increasing 7.9% year-over-year after a 2.9% increase last month. Compact tractor sales were up 11.1% year-over-year, decelerating slightly from the 12.3% growth seen last month. AEI

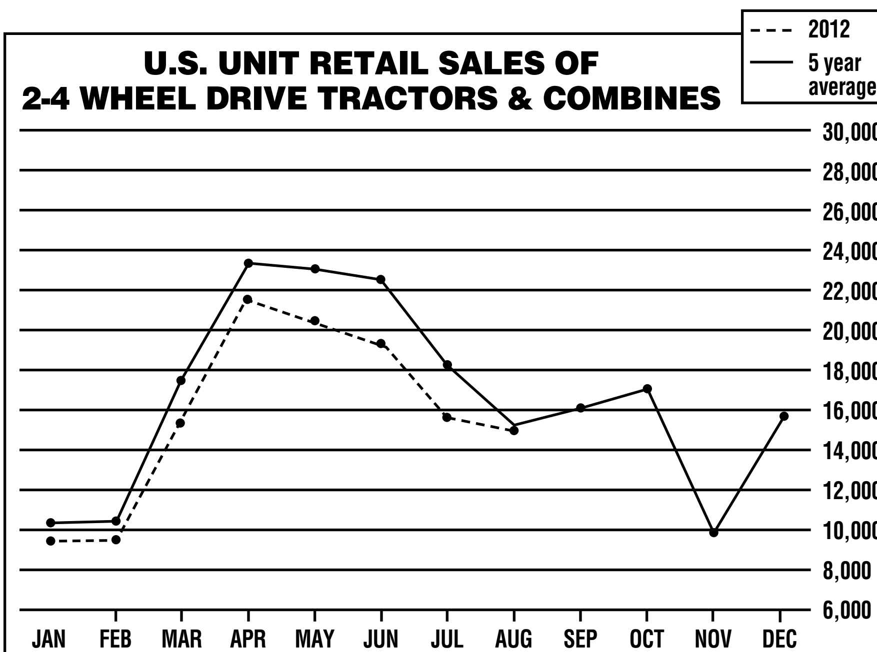
AUGUST U.S. UNIT RETAIL SALES

Equipment	August 2012	August 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	August 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,246	6,477	11.9	64,913	60,426	7.4	52,965
40-100 HP	4,123	3,703	11.3	35,379	32,906	7.5	24,350
100 HP Plus	2,256	1,783	26.5	18,264	16,163	13.0	8,302
Total-2WD	13,625	11,963	13.9	118,556	109,495	8.3	85,617
Total-4WD	522	350	49.1	3,820	3,504	9.0	1,482
Total Tractors	14,147	12,313	14.9	122,376	112,999	8.3	87,099
SP Combines	1,099	1,026	7.1	5,263	5,966	-11.8	1,888

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	August 2012	August 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	August 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	907	859	5.6	8,069	7,864	2.6	8,530
40-100 HP	393	483	-18.6	3,865	3,934	-1.8	3,785
100 HP Plus	241	348	-30.7	2,891	2,687	7.6	2,049
Total-2WD	1,541	1,690	-8.8	14,825	14,485	2.3	14,364
Total-4WD	66	84	-21.4	904	874	3.4	468
Total Tractors	1,607	1,774	-9.4	15,729	15,359	2.4	14,832
SP Combines	398	490	-18.8	1,541	1,886	-18.3	903

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



—Assn. of Equipment Manufacturers

As for the dealers' forecast for equipment sales in 2013, 31% are forecasting higher sales vs. 2012, 29% expect sales to be lower than 2012 levels, and 40% see 2013 sales levels to be flat compared with 2012.

Face-to-Face. In addition to the nationwide survey, between August 28-31, Henry Kirn, machinery analyst for UBS, visited 14 dealers representing all of the major farm equipment brands in Iowa, Missouri and Kansas. "We discussed the second half of 2012 and 2013 sales outlooks, drought impact, new equipment availability issues and replacement demand," Kirn said in a September 7 note.

His key takeaways from his visits included the following observations:

1. Dealers generally expect second-half sales to be above the second half of 2011.
2. Dealers were divided on 2013, but more expect 2013 equipment sales to be up than down.
3. While they generally expect higher sales, over two-thirds of dealers have become more cautious due to drought.
4. Farmers will be more cautious spending crop insurance proceeds than crop receipts.
5. Dealers are split on whether they will experience delivery issues from manufacturers over the next few months.
6. While there's some concern that farmers could age equipment, most dealers see no change to replacement cycle over the next five years.
7. Dealers are concerned about used combine inventories, but the issue continues to appear manageable.

"While positive in the aggregate, the 2013 outlook was uneven by area, as better yielding areas and areas with higher levels of crop farmers were extremely bullish on demand," Kirn says. "Areas driven by livestock and hay were less bullish as high feed costs and low hay yields have led to spotty profitability for those sectors."

Cautious Dealers. When UBS asked dealers about the impact of the 2012 drought on their business outlook, 69% indicated they've become "more cautious" due to the drought. Only 13% say they have a "more positive" view of business conditions, while the remaining 19% say they haven't changed their outlook because of the drought.

When it comes to farmers spending their crop insurance dollars vs. their crop receipt proceeds, dealers believe that farmers will be more restrained with their insurance monies. In fact, 58% of dealers expect farmers to be more cautious spending crop insurance proceeds than crop receipts, while 8% believe farmers will not be more cautious. The remaining 34% of dealers are not sure whether farm customers will be more watchful with the dollars they receive from insurance than the money they receive from selling their crops.

In their commentary about how the drought has affected their business outlook, many dealers say their farm customers will remain wary until the harvest is in and the insurance checks are in their hands. As one dealer put it, farmers "will want check in hand and some certainty of 2013 crop outlook, yield and price." Another said, "Farmers will be a little more cautious as there is change involved, but once they process the change and know their net farm income, cash flow and tax implications, they will continue to invest in machinery close to their original investment plans."

Brand Differences. Broken out by brand network, New Holland dealers are the most optimistic for higher sales in 2013 vs. 2012 with 45% of this group projecting higher sales next year. John Deere dealers were the least confident in the UBS survey as 41% expect 2013 sales to be lower than in 2012. Case IH dealers weren't far behind with 40% forecasting lower equipment sales in 2013 vs. 2012. **AEI**

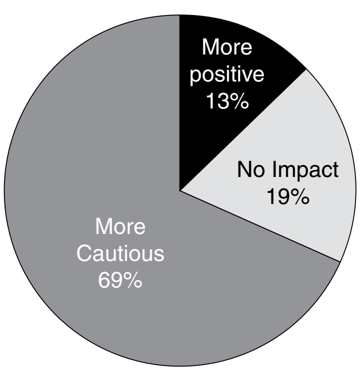
"Most dealers are encouraged fourth-quarter spending on equipment will rival that of the last quarter of 2011..."

Dealers Outlook for 2013 Equipment Sales vs. 2012

Brand	2013 Higher Than 2012	2013 Same As 2012	2013 Lower Than 2012
AGCO	17%	58%	25%
Case IH	25%	35%	40%
John Deere	24%	35%	41%
New Holland	45%	39%	16%
Total	**31%**	**40%**	**29%**

Source: UBS Agricultural Deale Survey — September 2012

Drought Impact on Dealer Sentiments



Source: UBS Agricultural Dealer Survey – September 2012

A majority of dealers say they're more cautious in their outlook due to the drought.