

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

December 15, 2012
Vol. 18, Issue 12

- Titan Beats the Street
- November Sales Slow
- Land Demand Rising

Deere Early Orders Solid Through 1Q & 2Q 2013

Not only did Deere & Co. fourth quarter earnings disappoint analysts, its fiscal year 2013 outlook came in lower than market expectations. At the same time, the company reported that its early order program for combines and other equipment is progressing nicely. According to reports, the company is expecting to raise equipment prices by about 3% for its new ag and turf equipment, particularly large machinery.

Despite the early positive signals, Deere still expects its overall ag and turf equipment sales for fiscal 2013 to come in flat compared with the prior year.

During a conference call with analysts on November 21, the company indicated that its early order

combine program is now by quarter and it has booked all of its available combine production for the first and second quarters of fiscal 2013. Reportedly, dealers began placing combine orders for the third quarter in early November.

"In aggregate, the other seasonal programs for planters, sprayers, drills, air seeding and tillage are all up double-digits," says Eric Crawford, analyst for UBS. "Of note, sprayer production is almost full, even with additional capacity available this year. Our 2013 outlook is supported by this promising early order activity."

Improved Margins. According to JP Morgan analyst Ann Duignan, "The company now provides guidance for gross margin, which is

expected to be about 26% in fiscal 2013 vs. 25.2% in fiscal 2012, suggesting an incremental gross margin of 39%. This seems a little aggressive given the past few quarters' performance," says Duignan. "The livestock industry has already begun to be affected by the drought and conditions are likely to deteriorate before they improve, in our view, yet management's outlook for livestock receipts in 2013 is for 4% growth."

Price Increase. Deere has hired 5,000 people over the past three quarters and the additional costs suggest margin headwinds into early fiscal year 2013, according to Duignan. "The company is covering 90% of its cost for T4i in ag and turf and in

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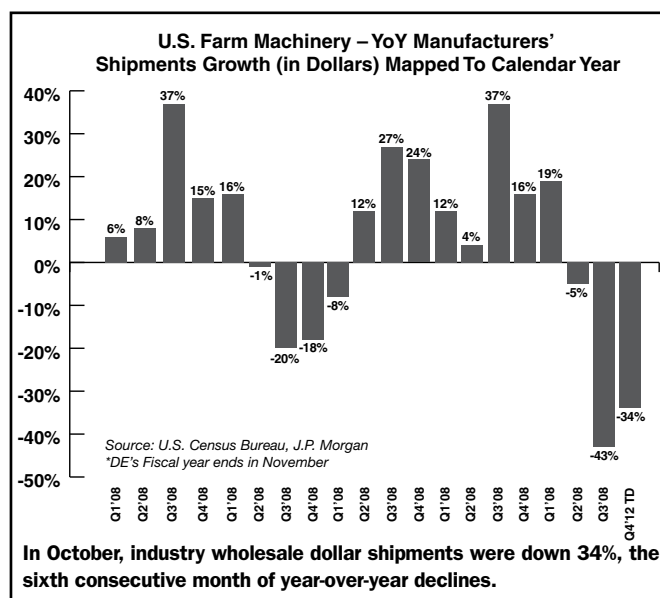
November N.A. Unit Sales Remain Solid, But U.S. Census Data Shows a Falloff in Wholesale Dollars

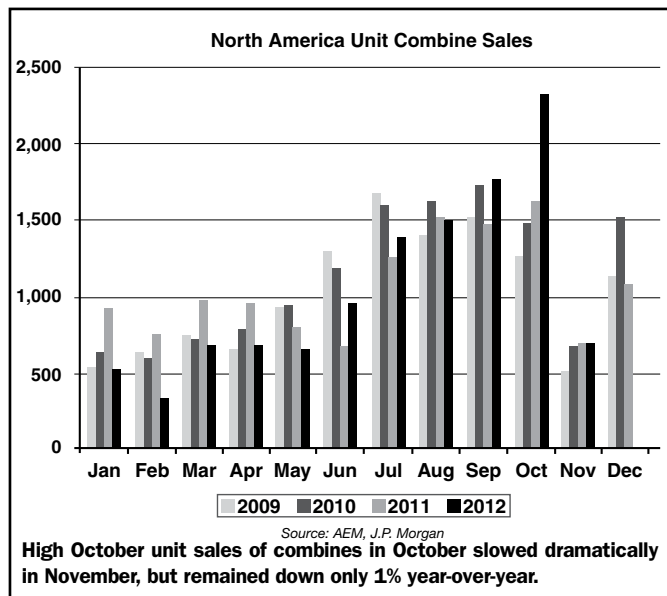
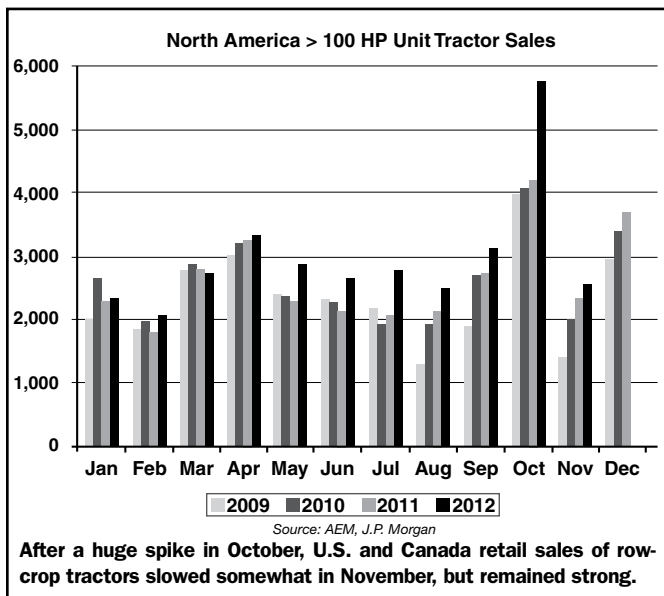
The Assn. of Equipment Manufacturers continues to report year-over-year gains in unit sales of tractors and only a small dropoff for combines in the U.S. and Canada. But data from the U.S. Census Bureau indicates that overall wholesale dollar shipments for farm machinery declined for the sixth consecutive month in October.

"In October (latest month available), non-seasonally adjusted industry wholesale dollar shipments released by the U.S. Census Bureau were down 34%, the sixth consecutive month of year-over-year declines," says JP Morgan machinery analyst Ann Duignan. It should be noted the Census Bureau data includes exports, while the AEM data only covers retail sales in North America.

"Prior to May 2012, wholesale dollar shipments were up year-over-year for 23 of the previous 25 months," says Duignan. She also noted that "OEMs such as CNH have announced plans to under-produce retail activity in the

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...November Unit Sales Continued from page 1

fourth quarter in an effort to balance inventories. Overall, OEMs may be reducing wholesale shipments and inventory near term in preparation for what may be a flat year in 2013."

2013 Outlook. In their most recent earnings reports, each of the major full-line equipment manufacturers indicated they weren't expecting significant growth in North America for 2013. AGCO is projecting flat sales for the year in the U.S. and Canada, CNH is forecasting flat to up 5%, and John Deere expects flat sales for the full year.

After posting huge retail sales gains in October — U.S. row-crop tractors sales were up 34.4% year-over-year and overall tractors sales were up 29.3% — retail sales moderated in November, with row-crop tractors still showing solid momentum (+10%).

"Increases seen in recent months may be due to end-of-year tax planning activity among farmers. Overall, tractor sales are up 11% year-to-date, including +16% for the 100 horsepower and higher category and +8% for the 40-100 horsepower category," Duignan says.

Likewise, U.S. combine sales saw an enormous spike in October (+45.2% vs. October 2011), but saw a falloff of 1.5% year-over-year in November. "Combine sales are down 1% year-to-date," says Duignan. "We believe farmers may exercise caution in early 2013 after a tax-fueled fourth quarter of 2012, given that soil conditions are less favorable than a year ago for fall prep work and there remains low visibility on planting intentions for next spring."

But some analysts remain highly optimistic for sales growth in 2013. In a December 11 note, Eric Crawford, machinery analyst for UBS Global Equity Research, wrote, "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."

"Corn, soybean and wheat prices remain well above historical averages and USDA forecasts elevated farm net income in 2012, (though down 1.4% year-over-year). We see elevated income as likely to lead to strong equipment demand in 2013." **AEI**

...John Deere Continued from page 1

construction and forestry the company is 75% covered. With a 3% price increases in ag and turf, management expects to offset ~100% of the incremental costs in 2013." **AEI**

Deere Retail Comparisons vs. Industry

Deere offered several retail comparisons vs. the industry during its most recent reporting period, according to Robert McCarthy, analyst for RW Baird.

- Deere's combine sales rose more than the 40% industry rise in October.
- Deere reported that dealers' combine inventories represented 4% of trailing 12-month sales, slightly higher than the 3% observed at this time last year.
- Deere dealers' sales of four-wheel drive tractors increased slightly more than the 33% industry increase.
- Its retail sales of row-crop tractors increased more than the reported 34% industry increase; row-crop inventories represented 19% of trailing 12-month sales at the end of October, up from 16% at the same time last year.
- Retail sales of utility tractors grew a single digit in October, below the industry's 17% increase.
- Retail sales of selected turf and utility equipment in the U.S. and Canada were up double digits.

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Digi-Star, RDS to Exploit Synergies in Ag Precision Measurement Market

Digi-Star LLC's purchase of the UK's leading farm electronics business RDS Technology will result in expanded product lines and integrated solutions for OEMs operating in the global market, say executives at the two companies.

RDS Technology lists a number of leading field equipment manufacturers in Europe among its customers who use RDS instruments and sensors for weighing, spraying, spreading and sowing control, yield recording and vehicle monitoring.

"This combination of two leading companies in the precision measurement industry will offer great opportunities for new systems," says Richard Danby, RDS Technology's managing director. "It will suit those progressive companies looking to bring the type of equipment interfaces that will optimize productivity."

Terms for the acquisition from Harris & Sheldon Group have not

been disclosed, but RDS Technology filed accounts showing turnover equivalent to \$12.7 million last year and pre-tax profit of \$495,000 — both up 40% compared to the year prior.

About a quarter of turnover was generated in the UK and just over 60% from customers across the rest of Europe. Sales to America jumped 20% from 2010 to 2011, representing close to 7% of sales, while a 50% leap in sales propelled the Australia and New Zealand markets to a 3% share of the company's business.

Digi-Star is a significant player in on-board weighing systems, particularly for feed wagons, planters, spreaders, grain carts and livestock, with a European operation in the Netherlands supported by service agents in a number of countries.

"RDS and Digi-Star have numerous synergies with electronics and sensors for the agricultural and industrial markets that will complement

each other," says Grant Ihrke, Digi-Star's president. "Both companies will benefit from the expanded product lines and total integrated solutions for international customers with scales and control needs."

When Baird Capital Partners, the buyout fund of Baird Private Equity, acquired Digi-Star last year, partner Andrew Brickman said, "We have actively followed the agricultural products and process controls industries for the past few years and believe Digi-Star is a strong platform business that is well positioned to become the leading global precision measurement company serving the agricultural sector."

Former Gehl CEO Malcolm 'Mac' Moore joined Digi-Star's board noting, "The use of precision equipment to improve and optimize agricultural production is gaining increasing importance as producers look to increase yields and improve performance." **AEI**

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

Manufacturers	Symbol	12/13/12 Price	11/11/12 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$30.73	\$28.36	\$41.95	\$27.80	16.09	38,723	385.54M
AGCO	AGCO	\$48.89	\$44.83	\$54.00	\$38.09	6.84	1,152,130	4.74B
Alamo	ALG	\$31.72	\$29.91	\$34.63	\$25.51	11.88	20,436	379.53M
Art's Way Mfg.	ARTW	\$5.67	\$5.65	\$9.69	\$5.06	9.04	4,923	22.91M
Blount Int'l	BLT	\$14.36	\$13.39	\$17.62	\$12.46	17.73	267,976	704.83M
Buhler Ind. (as of 12/12)	BUI	\$5.36	\$5.45	\$5.75	\$5.04	6.78	4,806	134.00M
Caterpillar	CAT	\$88.36	\$85.18	\$116.95	\$78.25	9.05	7,049,330	57.78B
CNH Global	CNH	\$48.29	\$43.84	\$49.45	\$34.36	10.20	485,258	11.59B
Deere & Co.	DE	\$85.55	\$85.68	\$89.70	\$69.51	11.21	3,235,620	33.18B
Hemisphere GPS	HEM	\$0.73	\$0.71	\$1.14	\$0.56	N/A	55,369	48.39M
Kubota	KUB	\$53.45	\$50.18	\$54.94	\$39.14	16.05	23,940	13.43B
Lindsay	LNN	\$75.47	\$75.48	\$80.48	\$49.17	22.33	130,518	960.13M
Titan Int'l	TWI	\$20.96	\$19.35	\$29.95	\$16.86	9.48	738,506	1.00B
Trimble Navigation	TRMB	\$58.29	\$52.54	\$59.83	\$39.81	39.60	681,252	7.36B
Valmont Industries	VMI	\$134.94	\$130.66	\$141.18	\$81.00	12.69	128,453	3.59B
Retailers								
Cervus Equipment	CVL	\$17.46	\$19.55	\$21.39	\$14.15	11.80	24,930	260.10M
Rocky Mountain Dealerships	RME	\$11.55	\$11.06	\$12.13	\$8.54	10.22	24,559	216.98M
Titan Machinery	TTTN	\$23.32	\$21.75	\$36.92	\$19.07	10.98	532,242	485.36M
Tractor Supply	TSCO	\$85.33	\$91.33	\$103.74	\$68.50	23.36	658,494	6.01B

Amazone Adding Production Capacity with \$31M Investment; Pushing into U.S.

One of Europe's leading farm equipment makers, H. Dreyer & Son, makers of Amazone cultivators, seeders, sprayers and fertilizer applicators, is pressing ahead with the third phase of a \$31 million project that will expand and improve the efficiency of one of its six production facilities in Germany.

Work first started four years ago on the green-field site at Altmoorhausen close to an existing Hude town center complex in northern Germany. The third and fourth production facilities were completed just over a year ago and another three plants are now nearing completion.

Plant manager Dr. Stephan Evers says the latest \$3.3 million investment on the 62 acre site will add 7,200 square meters (77,500 square feet) to the existing facilities, taking the total to almost 17,000 square meters (183,000 square feet). Another building phase will add a warehouse and new paint plant.

"We need this increase in capacity to keep pace with increased demand for our machine range," says Dr. Evers. "It will also allow us to start moving complete production of large trailed drills from our plant in the center of Hude."

At present, the site is completing assembly of around 100 trailed air seeders and standard model maize drills a month from components manufactured and painted in the old plant. In the long-term, the town center site, which is bounded by roads and a railway, will be redeveloped to focus production of the Amazone products made there on the more accessible site.

These include a growing air seeder range that for now comprises the Cirrus disc cultivator and coulter drill and Cayena tine cultivator drill up to 20 feet, and the Citan plain disc coulter drill and Condor tine direct drill in widths up to 50 feet.

Moving Into U.S. In the U.S., Amazone equipment distributor for the past two and a half years, AMS Incorporated, Ogden, Ill., is introduc-

ing corn farmers to European-style tillage tools such as the Catros high-speed disc cultivator.

Unlike "vertical tillage" implements, which use straight discs to slice but not bury or mix residue with the ground, the Catros gets a mixing and burying action from two rows of individually-mounted angled discs, each carried on a supple rubber-suspension arm.

"I think the market potential is very good [in the U.S.]," says Jac Knoop of AMS. The biggest difficulty we have is that contrary to Europe, in the United States everybody knows John Deere but nobody knows Amazone, so we have a very difficult job in creating name recognition.

"The second difficulty is that nobody else in the U.S. has a machine like Catros," he adds.

"There's two or three other Europeans trying to break in which helps us a little bit because the more different products there are, the easi-

er the market sometimes goes."

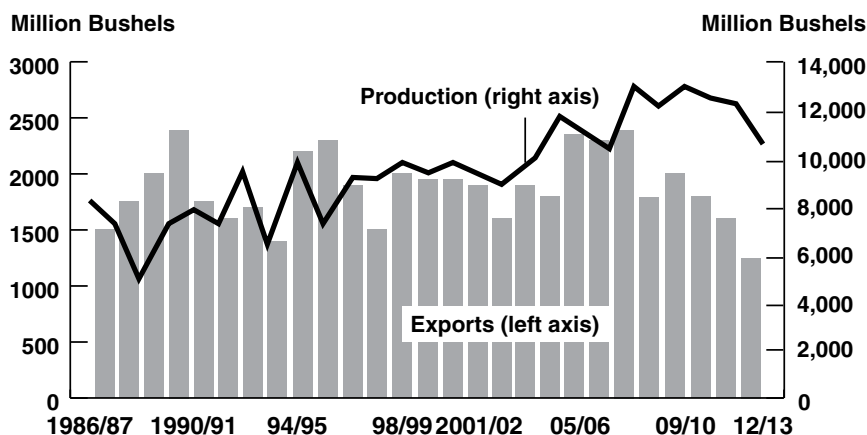
The implement is available mounted up to 20 feet wide and trailed up to 75 feet, with a rubber wedge ring roller consolidating the resulting tilth to conserve moisture and ensure good stalk-to-soil contact for rapid break-down. **AEI**

Dealer Commentary on Used Combines

"We have too many combines" ... "Combine values are getting softer" ... "Used combines are hard to move" ... "We are not sitting on our used equipment; our management has decided to be pretty aggressive. We are taking a decent amount of combines to auction. We just took 15 this last month" ... "We are very happy with our used combine inventory levels, but I know you probably don't hear that a lot."

— November Dealer Sentiments & Business Conditions Update Survey

U.S. Corn Exports Continue to Slip With Poor 2012 Harvest



The U.S. is the world's largest corn exporter, but U.S. corn exports have generally been declining since 2007, according to USDA's Economic Research Service's December 2012 *Feed Outlook* report. Lower U.S. corn production in the last few years and greater use of U.S. corn for ethanol production have contributed to the smaller exportable surpluses, while higher world prices have encouraged foreign exporters to grow more corn for export. For marketing year 2012-13, the drought-reduced corn harvest is expected to further reduce U.S. corn exports to 1.2 billion bushels, the lowest since 1974-75. Domestic feed and residual use of corn is also expected to fall in 2012-13 as livestock and poultry producers respond to higher feed prices by feeding fewer animals for shorter periods. U.S. corn use for ethanol is expected to decline about 10% to 4.5 billion bushels as supplies tighten, prices rise and U.S. motor fuel use declines. In spite of the decline, the share of U.S. corn used to produce ethanol is expected to remain steady at about 40%.

This chart appears in ERS's December 2012 *Feed Outlook* report.

Titan International Reacquires European Subsidiary, Buys Australian Distributor

U.S. farm tire giant Titan International detailed two major acquisitions as it reported record sales and profits for its third quarter — an off-highway wheel and tire distributor in Australia and its former European subsidiary.

“The most exciting news for the period is receiving shareholder acceptance to acquire Titan Europe Plc.,” says Chairman and CEO Maurice Taylor. “The increased global footprint creates strong opportunities for the future.”

Titan Europe manufactures rims and track undercarriage assemblies, doing most of its business across the European continent. But it also has significant operations in Australia, Turkey, South Africa, South America, Russia and China.

Agriculture accounted for about a quarter of 2011 revenues, which at the equivalent of \$779 million, recovered close to a 2008 peak; pre-tax profit came in at \$34.5 million.

The business has its origins in a joint venture established in the late 1980s that became a wholly-owned subsidiary of Titan International. It was partially spun off in 2004 through a listing on the junior market of the London Stock Exchange, with Titan retaining a stake of 20-30% over subsequent years.

Titan International launched an offer for all outstanding shares in August and gained sufficient acceptances to secure 97.1% of Titan Europe Plc. in return for Titan stock worth \$107.6 million. Shareholders, including Germany’s Mefro Wheels holding 26% of Titan Europe, received one new share of Titan International common stock for every 11 shares in the UK-based business.

Titan Europe lists AGCO, CNH Global, JCB, John Deere and the Same Deutz-Fahr Group among its top 10 customers, supplying rims for tractors and other farm vehicles, and track

assemblies for sugar cane cutters and other specialized harvesters, as well as for excavators, paving and various other machines.

The company has significant operations in Australia, which will be bolstered by Titan International’s newly-acquired 56% controlling interest in Perth-based Planet Corp. Group, a specialist manufacturing, distributing and servicing rims and tires for agriculture, mining, construction and earthmoving.

Titan paid \$22.9 million (plus \$10.5 million for debt) for a business that generated around \$72 million in sales and recorded EBITDA of \$9.6 million last year.

The U.S. company’s third quarter sales set a record \$404.7 million vs. \$398.8 million in 2011, taking year-to-date sales to \$1.32 billion, 22% ahead of last year’s figure, while gross profit increased 39.8% to \$242.6 million. **AEI**

Strong Tillage, Hay Tool Sales, Exports Helps Poettinger Set New Sales Record

Austrian farm equipment maker Poettinger has climbed back up the performance charts with a new record for sales revenues set during its 2011-12 financial year.

At the equivalent of \$358.4 million, sales were up by 19% on the preceding 12 months and marked a return to the annual growth trend achieved continuously until the recent international slump in ag equipment sales.

At that time, the company watched sales plunge by 24% from a record \$305 million in 2007-08 to \$231 million in 2009-10. The latest figure is 17.5% above the previous record, with strong increases for both tillage and hay and forage equipment.

“During this past financial year, we have proven that our slogan ‘More success with Poettinger’ has been more than just motivation for ourselves,” say joint managing directors Heinz and Klaus Poettinger. “It is also a promise

to our customers. Partnerships and proximity to our customers; sustainability and innovation; quality and stability; cost-effectiveness and efficiency — these are our core values.”

Sales of tillage equipment — power harrows, disc and tine cultivators, seed drills — saw the biggest resurgence to record 29% growth over the prior business year. These accounted for just under one-quarter of Poettinger’s ag equipment business.

The company’s original core competence in hay machinery continues to hold sway with a 66% share of turnover and 17% growth during the most recent 12-month period.

Exports from the company’s Austrian base amounted to 83% of net sales, with Poettinger maintaining global leadership in hay and silage loader wagons.

The company has also maintained the trend among European manufac-

turers of setting up their own distribution companies in preference to using importers. The UK and Ireland are the latest markets to get company-owned sales and service operations.

In the U.S., Poettinger North America established larger facilities in Valparaiso, Ind., in January this year, supported by a new parts warehouse in Leemore, Calif., to better serve West Coast customers. **AEI**

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Exel Group Surpasses Own Revenue Record, Acquires Another Sprayer Line

The Exel Group, owner of major crop sprayer companies Hardi, Berthoud and Tecnomat, has recovered ground lost during the worldwide economic downturn to post record sales for its agricultural division equivalent to \$475 million.

This figure beats the previous record of \$468 million set at the height of the farm equipment sales boom in 2008 and represents 70% of Exel Group's record \$678 million revenues for the period.

Exel chief executive officer Guerric Ballu says group companies overcame the component supply difficulties that held back sales in the prior year and optimized the supply chain. As a result, the company was in a better position to meet demand

for new sprayers and beet harvesters within reasonable deadlines.

The figures were boosted by a \$5.67 million contribution from new acquisition Agrifac, a Dutch manufacturer of large capacity trailed and self-propelled sprayers and self-propelled sugar beet harvesters. It cost Exel the equivalent of \$3.8 million to acquire an enterprise valued at \$12.7 million, which has 90 employees and operates sales subsidiaries in Great Britain and Russia.

Peter Millenaar, Agrifac's CEO and former co-owner, emphasizes that being part of the Exel Group will enable the company to realize its international ambitions faster and more effectively than if it remained an independent business. Like other group

companies, Agrifac will retain its management team and identity, and will operate with a fair degree of autonomy.

Exel's existing agricultural business increased sales by 19.7% over the preceding 12 months; the current financial year will benefit from Agrifac's full contribution of turnover, which last year amounted to \$42 million with EBITDA of \$1.7 million.

Looking ahead, Exel's Guerric Ballu is cautiously optimistic that a firm order book for the next few months will be sustained. He is confident that Exel Group sales will come in broadly similar to the past financial year — but if grain prices remain high, he anticipates growers taking the opportunity to invest in new machinery, with sprayers high on the shopping list. **AEI**

No Let Up Seen in Demand for Farmland

Along with the expected steady demand for new farm machinery in early 2013, the *Agricultural Newsletter* from the Federal Reserve Bank of Chicago is reporting the strong competition for farmland in its district is expected to continue.

This district includes the Midwest states of Illinois, Indiana, Iowa, Michigan and Wisconsin.

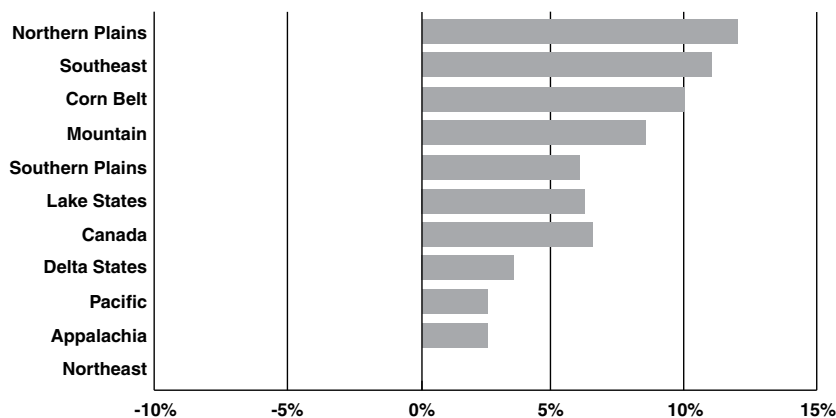
Iowa's farmland values continued to lead the district, with a year-over-year increase of 18% for the third quarter of 2012. The quarterly increase in the District's agricultural land values was 5% for the third quarter of 2012 — much higher than the 1% gain for the previous quarter.

Survey results (223 responses) indicated that the impetus for higher farmland values actually strengthened during the third quarter of 2012. Given that 36% of the survey respondents expected higher agricultural land values during the October-December period of 2012 and just 1% expected lower values, the drought does not seem to have derailed bankers' anticipation of further upward movement in farmland values.

Moreover, the demand to acquire farmland this fall and winter was not anticipated to ebb among farmers. Given that 57% of surveyed bankers predicted increased demand for farmland among farmers over the

next 3-6 months and only 5% predicted decreased demand, there should continue to be a lot of interest in available agricultural ground. Strong demand among nonfarm investors also continues. **AEI**

Northern Plains Shows Strongest Equipment Sales Growth



Source: Ag Equipment Intelligence

Ten out of 11 regions showed positive average monthly sales growth in October, up from eight in September, according to the *Ag Equipment Intelligence*-Cleveland Research November "Dealer Sentiments & Business Conditions Update" report. The Northern Plains, Southeast and Corn Belt regions were the top performers. On a sequential basis, Canada saw the most significant acceleration while the Southern Plains saw the most significant decline. **AEI**

Sales Growth Slows in November

North American sales of farm machinery began to slow in November. While most categories still posted increases, the numbers were down compared to those seen in October, notes Baird analyst Robert McCarthy. "Inventory levels continue to rise in most categories ahead of anticipated demand prior to bonus depreciation expiration."

Year-over-year, row crop, 4WD, mid-range and compact tractor sales increased 10.3%, 31.4%, 14.4%, and 4.7%, respectively. U.S. and Canada large tractor and combine retail sales increased 11% year over year in November, decelerating from the 32% increase in October.

- Combine retail sales fell slightly, posting a 1.5% year-over-year decline in November following a 40.5% jump in October. Last three month (L3M) sales increased 25.6% over the same period last year following a 21.1% increase last month. U.S. combine inventories were 1.7% lower year-over-year in absolute terms in October (vs. up 1.8% last month). November is typically the least important month for combine sales, accounting for 5.2% of annual sales over the last five years.

- Row-crop tractor sales continue to grow, posting a 10.3% year-over-year increase, but were down from the 27.9% increase observed in October. L3M sales increased 20%. U.S. row-crop tractor inventories increased 22.2% in October over the same period last year vs. a 23.5% increase in September. November has been the least important month for row crop tractor sales over the last five years, accounting for 6% of annual sales.

- 4WD tractor sales saw a 31.4% year-over-year increase in November, down slightly from a 32.7% increase in October. U.S. dealer inventories of 4WD tractors increased 38.5% in October compared to the same period last year.

- Mid-range tractor sales rose in November, up 14.4% year-over-year after a 16.8% increase last month. Compact tractor sales were up slightly at 4.7% over the same period last year, but were down from the 25.1% growth last month.



NOVEMBER U.S. UNIT RETAIL SALES



Equipment	November 2012	November 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	November 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,303	4,208	2.3	84,801	78,056	8.6	53,999
40-100 HP	3,429	2,839	20.8	48,554	44,465	9.2	25,819
100 HP Plus	2,128	1,946	9.4	27,855	24,137	15.4	8,529
Total-2WD	9,860	8,993	9.6	161,210	146,658	9.9	88,347
Total-4WD	492	379	29.8	6,167	5,448	13.2	1,485
Total Tractors	10,352	9,372	10.5	167,377	152,106	10.0	89,832
SP Combines	517	524	-1.3	8,896	8,962	-0.7	1,182

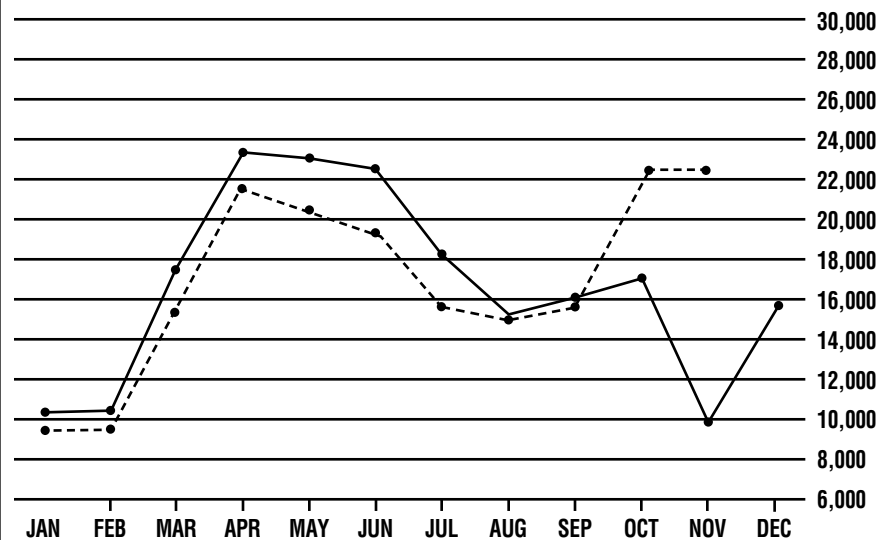
NOVEMBER CANADIAN UNIT RETAIL SALES



Equipment	November 2012	November 2011	Percent Change	YTD 2012	YTD 2011	Percent Change	November 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	855	717	19.2	11,173	10,965	1.9	7,919
40-100 HP	576	561	2.7	6,076	6,251	-2.8	3,447
100 HP Plus	364	313	16.3	4,522	3,934	14.9	2,044
Total-2WD	1,795	1,591	12.8	21,771	21,150	2.9	13,410
Total-4WD	140	102	37.3	1,457	1,235	18.0	446
Total Tractors	1,935	1,693	14.3	23,228	22,385	3.8	13,856
SP Combines	205	209	-1.9	2,700	2,718	-0.7	480

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

--- 2012
— 5 year average



—Assn. of Equipment Manufacturers

Titan Machinery Beats Street Estimates; 'Growth Drivers Remain Intact'

Titan Machinery (TITN) sneaked past Wall Street's third-quarter EPS expectations by a penny (0.66 vs. 0.65) and raised its previous revenue guidance for the full year ending January 31, 2013. The company says it expects full-year revenue to be in the range of \$2 billion to \$2.15 billion from the previous range of \$1.95 billion to \$2.1 billion. Net income for the current fiscal year is expected to be in the range of \$44.1 million to \$48.3 million. This compares to the full-year of fiscal 2012 when Titan generated revenue of \$1.66 billion and net income was \$43.8 million.

Rising Revenues. Top-line revenues for the period rose 37.6% to \$582.1 million from \$423 million in the third quarter last year. All four of Titan's revenue sources — equipment, parts, service and rental and other — contributed to this period-over-period revenue growth. Equipment sales were \$456.2 million vs. \$312.3 million (+46.1%). Parts sales were \$72.1 million vs. \$64.5 million last year (+11.8%). Revenue generated from service was \$33.4 million vs. \$29.8 million (+11.8%). Revenue from rental and other increased to \$20.5 million from \$16.3 million in the third quarter last year (+25.3%).

Gross profit for the third quarter of fiscal 2013 was \$94.1 million, compared to \$74 million in the third quarter last year. The company's gross profit margin was 16.2% compared to 17.5% in the third quarter last year. According to Titan, the decrease in gross profit margin was primarily due to the change in sales mix, in which the higher margin parts and service businesses generated a smaller percentage of sales compared to the

same quarter last year.

New Equipment Inventory. "Titan will continue with its plans to reduce its new equipment inventory," Rick Nelson says in a December 6 note. Inventories rose from \$748 million a year ago to \$1.05 billion, and \$57 million of the increase came from recent acquisitions. New inventories, including acquired assets, grew \$281 million from the prior year. Titan is currently locked into production slots from CNH that were set 12 months ago and therefore expects new inventories to peak in third quarter as the company forecasts a \$75 million sequential decrease in inventory in fourth quarter," says Nelson.

"The company's long-term goal is to reach a 3x inventory turn and to use pre-sale marketing as inventories are balanced. Cash flow should improve with lower inventory levels."

Nelson adds that management noted that the early ag harvest has allowed field preparations for next year's growing season. "Additionally, the dry crop conditions lower the harvest cost on this year's crop. The low projected carryover crop into next year is driving high commodity prices. The USDA is forecasting net farm income of \$114 billion for 2013, well above the 10-year average of \$74 billion. While section 179 and 50% bonus depreciation is scheduled to expire at yearend, the high farm income, strong farm balance sheets, and the high proportion of fully depreciated equipment supports demand next year."

Titan Machinery Analysis. In a December 7 note to investors, Robert McCarthy, analyst for Baird Equity Research, maintained his positive out-

look for Titan into its new fiscal year.

"We continue to view Titan as an attractive stock at current levels, as fiscal year should benefit from strong ag equipment utilization boosting demand for high-margin parts and services, with construction providing potential upside as demand drivers (housing, commercial construction) remain in place, and rental store execution improves.

"Our estimate assumes a rebound in agriculture revenue growth (+4.7% organic) helped by continued strong farm fundamentals, as well as growth in construction (+8%). This results in a revenue estimate of \$2.27 billion, (5.3% growth)."

In fiscal 2013 to date, Titan completed seven acquisitions. It also opened a new construction dealership in Windsor, Colo., and three new agriculture dealership locations in Romania. It also contracted with CNH to distribute Case Construction equipment in Romania and Bulgaria and to distribute Case IH agricultural products in Ukraine. **AEI**

Romanian Tractor Sales to Double

It would appear that Titan's entry into the Romanian farm equipment market will pay off as the country is expecting tractor sales to double in the next five years. According to a report in the *Simona Bazavan Business Review*, some 1,800–2,000 new tractors are forecast to be sold this year in Romania, up from 1,200 in the previous year. According to George Stanson, business manager for Romania, Bulgaria, Croatia and Serbia at Case IH & Steyr Balkans told the *Business Review* that local farmers are also looking for tractors with more horsepower. The average horsepower for a new tractor has reach 250 horsepower. Four years ago it was 140 horsepower.

Stanson also says, tractor sales will continue increasing and over the next 5 years annual sales should reach 5,000 new units. But he noted that much of the projected growth will be highly dependent on financing opportunities and the future Common Agriculture Policy for 2014-2020.

Titan Machinery — FY 2013 3Q & 9 Months Segment Overview

(in millions of dollars)	Q3 FY2013	Q3 FY2012	Change	First 9 Months FY 2013	First 9 Months FY 2012	Change
Revenue*	\$582.1	\$1,052.0	+34.4%	\$1,413.9	\$423.0	+37.6%
Agriculture	\$503.5	\$913.9	+31.2%	\$1,200.1	\$361.6	+39.2%
Construction	\$94.9	\$181.4	+49.8%	\$271.7	\$77.4	+22.5%

Source: Titan Machinery