From the editors of *Farm Equipment...*

Ag Equipment Intelligence

February 15, 2013
Vol. 19, Issue 2

News, Information & Analysis for the Ag Equipment Marketer

- Ethanol: Tough Times
- Farm Net Income Slips
- Bigham Bros. Sold

AGCO's Decision to Quit Producing SpraCoupe Not 'Good News' for Dealers or Customers

AGCO Corp. cited "EPA compliance and diminishing volumes resulting in an ever-changing industry landscape" when it announced it would discontinue production of its SpraCoupe compact, self-propelled sprayers for the North American market in 2013. The decision to dump the sprayer left dealers to figure out how to fill the gap in their product lines.

"If we followed the 'brand purity doctrine' [of the major manufacturers] it would have been a major shock," Greg Simpson told *Ag Equipment Intelligence*. Simpson owns Simpson Farm Enterprises, one of the largest retailers of SpraCoupe sprayers in North America through its four dealership locations throughout Kansas. SFE specializes in the sale of spray and application equipment.

"Back in 1998, we heard that SpraCoupe was for sale and we began sourcing another machine as we were unsure if we would still be a Coupe dealer when the sale was over," says Simpson. "As it turned out AGCO bought SpraCoupe and we have sold for them since.

"Dropping the line is not good news for us or our customers as it had a good following in certain markets. One customer told us, 'I hate to see the SpraCoupe name go away, but I don't want to see it on an inferior machine either.'"

Ag Equipment Intelligence editors spoke with other manufacturers and dealers at the Ag Connect Expo in Kansas City last month that speculated that AGCO's decision to dump the sprayer line was a way for it to get out from under several "cat and dog" distribution contracts it had with other dealerships. It would also be in line with AGCO's move to reduce its total number of dealers and to emphasize its desire to have more "full-line" dealers of AGCO machinery.

One of the dealers who asked not to be quoted directly, said, "AGCO is still trying to clean up some of the contracts it has with dealers who really don't do much in the way of selling sprayers. The dealers want to maintain the distribution rights in

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Dealers Report Equipment Pricing, Lead Time Declines

North American farm equipment dealers are reporting that they're seeing some reduction in price contribution to sales, and lead times from the factory, according to the most recent *Dealer Sentiment & Business Conditions Update* report.

Ag Equipment Intelligence and Cleveland Research Co. conducted the survey in late December. More than 130 dealers representing combined annual revenues of roughly $4.8 billion participated in the survey.

The dealers who responded report price contributed roughly 2% to total December revenue, down slightly from 2.2% from the previous month. This is the first time since last

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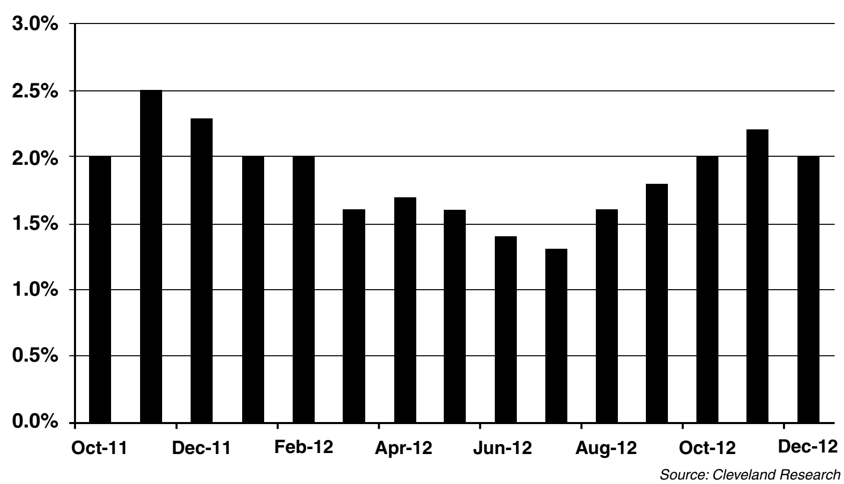
Price Contribution to Sales of Ag Machinery — 2011-12



Price contributions to sales of North American farm equipment rose continually between July and November 2012. In December, dealers say price contribution declined.

case they have a customer who wants to buy one. This will give AGCO the chance to further reduce its non-productive sprayer dealers.

"I wouldn't be surprised to see them bring out a similar machine in a few years to replace the SpraCoupe."

53-Year History. SpraCoupe was originally a homemade self-propelled sprayer built by a farmer. In 1961, it was acquired by Kirschmann Manufacturing of Bismarck, N.D. Just over 150 units were manufactured by 1965 as demand grew, and in 1973 it was purchased by the Melroe Manufacturing Co., maker of the Bobcat skid steer loader. AGCO acquired SpraCoupe along with Wilmar agricultural sprayers in 1998 and merged production into one plant in Wilmar, Minn.

Mark Sharitz, AGCO's marketing director for application equipment, said production of all SpraCoupe 2013 models would continue through May 2013. The company intends to continue manufacturing SpraCoupe parts.

According to a press release from AGCO, "For the past 50 years, the SpraCoupe brand has served farmers who want smaller professional-grade self-propelled application equipment for applying fertilizer and crop protection products on their own.

"However, the North American customer base for this segment has been shrinking, reflecting fewer, smaller farms and a growing number of larger farming operations, fueling demand for larger, more productive machines." Sharitz said these market shifts combined with the cost for Tier 4 compliance "have made it impractical to continue the SpraCoupe brand after the 2013 model year."

Sharitz noted that AGCO would continue manufacturing and marketing its larger RoGator and TerraGator branded sprayers through its dealer network.

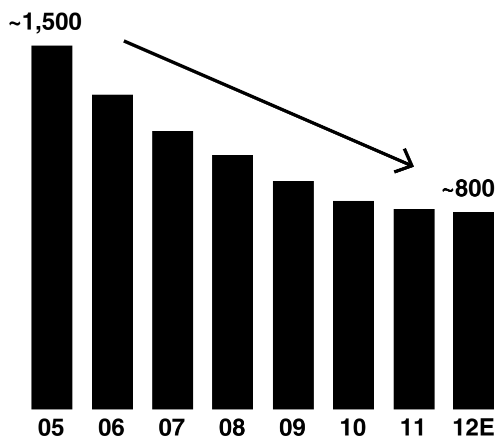
Dealers' Decisions. Simpson says, "We will not burn any bridges with AGCO as we will provide parts and service for these machines for years to come. Because of Equipment Technologies' Apache, which is the other machine we sell besides the Coupe, we will continue our presence in the marketplace as a dealer specializing in spray equipment sales, service, parts and education.

"We will decide if searching for another brand of spray equipment is feasible in the next few weeks. We look forward to new adventures in the application industry. We want to be associated with leaders and innovators of the sprayer world."

Mike Laethem of Farm Depot, which operates two and soon to be three dealer locations, and is the exclusive dealer of AGCO's Challenger equipment in the state of Michigan, says the move will have little effect on his business.

"We expect most of the SpraCoupe customers to migrate to used larger self-propelled sprayers. We do not plan on representing another brand as the smaller self-propelled sales have been declining in our market for the past four years." **AEI**

Number of AGCO Dealers 2005 vs. 2012



Since 2005, AGCO has reduced its total number of dealers in an effort to support those carrying the companies full line of products.

USDA Estimates Farm Net Cash Income to Drop 8.9% in 2013

On February 11, USDA issued its initial 2013 estimates for farm net cash income and cash receipts and forecast a drop in net income of nearly 9%. The government economists also said that cash receipts will be slightly higher year-over-year.

In total, the ag agency says that farm cash net income will come in at $123.5 billion in 2013 compared with $135.6 billion estimated for 2012.

"While down year-over-year, farm cash net income is forecast to remain 47% above the 2002-11 average of $83.8 billion," says Eric Crawford, machinery analyst for UBS Global Equity Research.

"Despite the decline in cash net income, USDA forecasts record farm net income to increase 13.6% year-over-year to $128.2 billion helped by a $15.9 billion inventory adjustment, including about $13 billion for corn."

Rising Expenses. At the same time, USDA projected slightly higher cash receipts that will be offset by larger increases in expense.

"USDA's 2013 forecast of cash receipts of $392.9 billion is up 0.4% from 2012 on higher livestock receipts — +2.8% to $176.5 billion — partially offset by a 1.5% decline in crop receipts to $216.3 billion," says Crawford in a note. "USDA noted total expenses are forecast to establish a record-high. Rent, labor and feed are the expense items expected to increase the most in 2013."

Crawford expects the USDA forecast for elevated farm cash net income in 2013 to continue the strong momentum seen for ag equipment sales over the past three years. **AEI**

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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summer that price as a contribution to sales has decreased sequentially.

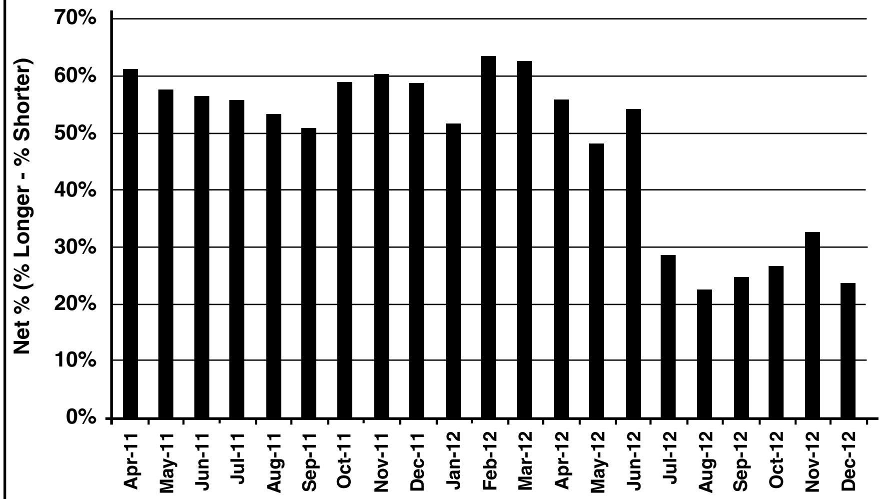
Lead Times. In December, a net 24% of dealers reported longer factory lead-times compared to the previous month (33% longer; 58% same; 9% shorter), which was down from a net 32% in November.

Looking back over the past year, equipment lead times from the factory have continued to decline starting in July 2012.

A closer look at availability by product category showed mixed trends in lead times. On average, combine lead times are 6.4 months; 4WD tractors are 5.5 months; row-crop tractor lead times are 6 months; and lead times for smaller tractors (<100 HP) are at 5.3 months.

Fewer Incentives. Farm equipment dealers also noted in the survey that manufacturers are not as aggressive in offering incentives as they were in previous months, most likely the result of continuing strong sales of ag machinery in 2012.

Equipment Lead Times December 2012 vs. November 2012



Source: January 2013 Dealer Sentiments & Business Conditions Update

Overall, a net 24% of dealers reported longer factory lead-times in December compared to November (33% longer; 58% same; 9% shorter), which was down from a net 32% November.

A net 21% of dealers report that manufacturers were less aggressive with incentives in December (11% more aggressive; 56% same; 33% less aggressive) compared to a net 11% who reported manufacturers were more aggressive in November.

Dealers also reported a slightly higher level of optimism in December compared with November. **AEI**

FARM MACHINERY TICKER (AS OF 02/11/13)

Manufacturers	Symbol	02/11/13 Price	01/10/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$35.35	$32.92	$41.95	$27.80	18.51	48,751	440.85M
AGCO	AGCO	$54.87	$50.99	$54.94	$38.09	10.35	1,033,710	5.32B
Alamo	ALG	$33.97	$34.38	$35.18	$25.51	12.72	28,047	406.45M
Art's Way Mfg.	ARTW	$7.09	$6.90	$9.58	$5.23	11.30	6,915	28.64M
Blount Int'l	BLT	$17.31	$15.69	$17.62	$12.46	21.37	261,444	849.63M
Buhler Ind.	BUI	$6.25	$5.31	$7.25	$5.04	9.62	4,070	156.25M
Caterpillar	CAT	$96.60	$95.08	$116.95	$78.25	11.39	6,061,340	63.22B
CNH Global	CNH	$47.66	$44.38	$49.99	$34.36	10.18	661,068	11.53B
Deere & Co.	DE	$93.23	$89.91	$95.60	$69.51	12.22	2,786,130	36.16B
Hemisphere GPS	HEM	$0.89	$0.76	$1.14	$0.56	N/A	71,098	58.99M
Kubota	KUB	$56.08	$57.92	$60.00	$40.61	16.21	27,719	14.09B
Lindsay	LNN	$91.49	$90.67	$94.90	$52.68	21.29	143,761	1.17B
Raven Industries	RAVN	$25.75	$26.86	$37.73	$23.01	18.07	124,842	935.24M
Titan Int'l	TWI	$26.37	$23.42	$29.95	$16.86	11.93	621,047	1.26B
Trimble Navigation	TRMB	$59.58	$62.04	$64.06	$40.02	39.99	672,324	7.55B
Valmont Industries	VMI	$149.10	$142.49	$149.10	$105.00	14.03	127,924	3.97B
Retailers								
Cervus Equipment	CVL	$19.40	$19.60	$21.39	$16.90	13.11	14,940	N/A
Rocky Mountain Dealerships	RME	$12.44	$12.40	$12.53	$9.80	11.50	37,724	233.69M
Titan Machinery	TITN	$29.26	$27.79	$36.92	$19.07	13.78	381,326	608.99M
Tractor Supply	TSCO	$103.20	$93.04	$104.83	$75.46	27.16	748,953	7.25B

CNH 4Q Revenues Rise 3.4%; Full Year Up 7.6%

CNH Global reported on January 31 that its net income for the fourth quarter of 2012 rose slightly to $195 million from $193 million for the last quarter of 2011. Overall, total equipment sales (ag and construction) increased by 3.4% to $4.9 billion in 2012 compared with $4.8 billion in 2011, almost totally on the strength of an 8.6% improvement in ag equipment sales.

For the full-year ending on December 31, net income grew by 21.6% to $1.1 billion, from $939 million in 2011. Net equipment sales increased 7.6% to $19.4 billion in 2012, with ag equipment sales increasing by 10.4% and construction equipment sales falling by 2.7%.

Strong Ag Growth. The company reported full year net sales of ag equipment increased 15% on a constant currency basis (10% on a reported basis) "driven by increased volume, positive net pricing and favorable product mix."

Each of the CNH's three geographic regions reported increased revenue on a constant currency basis. Net sales of ag machinery came in at about $4 billion vs. $3.7 for the same period of 2011. Operating profit increased by $270 million to $1.7 billion at an operating margin of 10.7%, up 80 basis points compared to 2011.

CNH also reported that worldwide production of ag equipment trailed retail sales in the fourth quarter, resulting in a strong cash generation from working capital in the quarter. As a result, the company implemented a scheduled production slowdown to reduce company and dealer inventory to year-end desired levels.

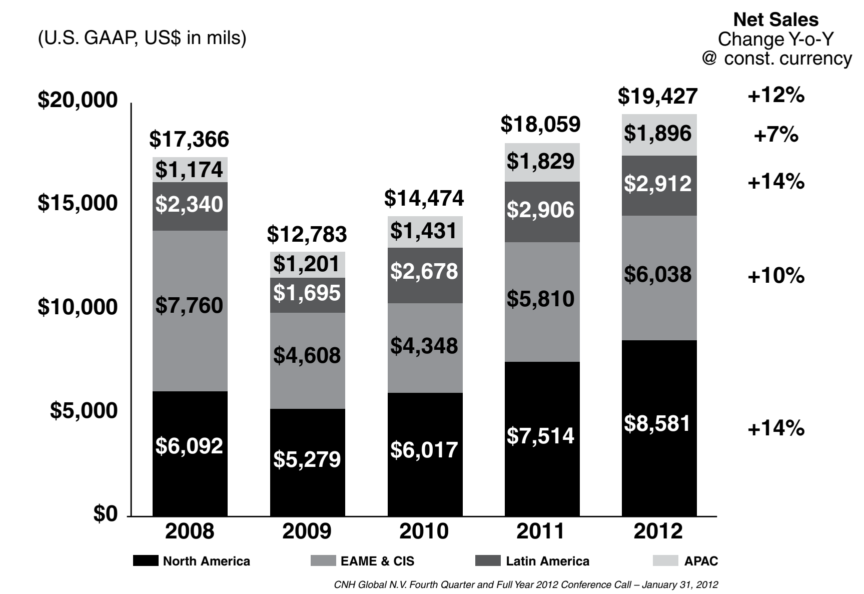
Soft Year Ahead. CNH reiterated its forecast for global demand for ag machinery to be "flat to up 5%" for full year 2013. Competitors Deere & Co. and AGCO are projecting similar levels for equipment sales.

In a note to investors, Ann Duignan, machinery analyst for JP Morgan, said CNH expects North American tractors to be flat to up 5%, and North American combine sales to be flat; EAME/CIS (Europe, Asia, Middle East and Commonwealth of Independent States) tractors to be down 5%, EAME/CIS combines flat to down 5%; and Latin America tractors up 10%, with combines up 15-20%.

"We are raising our estimates [for CNH] slightly, reflecting renewed tax benefits in the U.S. as well as strong fundamentals in South America," says the JP Morgan analyst.

The company is projecting a 5% increase in overall revenues for 2013, with operating margins coming in at 8.5-9%, which is slightly higher than operating margins seen in 2012. AEI

CNH 2012 Net Sales by Geographic Region



CNH's equipment sales increased by 3.4% to $4.9 billion in 2012 vs. $4.8 billion in 2011. Ag equipment sales rose by 8.6% with a strong showing in North America and Latin America.

CNH Equipment Operations Results — 2012 vs. 2011

	Agricultural Equipment			
	Quarter Ended		Year Ended	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Net Sales Equipment	$ 4,014	$ 3,695	$ 15,657	$ 14,183
Gross Profit	$ 803	$ 685	$ 3,359	$ 2,904
Gross Margin	20.0%	18.5%	21.5%	20.5%
Operating Profit	$ 322	$ 241	$ 1,680	$ 1,410
Operating Margin	8.0%	6.5%	10.7%	9.9%
	Construction Equipment			
	Quarter Ended		Year Ended	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Net Sales Equipment	$ 915	$ 1,073	$ 3,770	$ 3,876
Gross Profit	$ 102	$ 132	$ 502	$ 529
Gross Margin	11.1%	12.3%	13.3%	13.6%
Operating Profit	$ (42)	$ (3)	$ (6)	$ 55
Operating Margin	(4.6)%	(0.3)%	(0.2)%	1.4%
Consolidated Net Income	**$195**	**$193**	**$1,142**	**$939**

Harvester Specialist Grimme Continues to Grow NA Business

Potato equipment specialist Grimme strengthened its position in the sugar beet harvesting sector shortly after completing a near-record year for sales revenues.

The fellow German manufacturer Franz Kleine reported financial difficulties in mid-year 2012. Subsequent negotiations brought the 135-year old business under the umbrella of the Grimme group.

"The sugar beet loading and cleaning machines of Kleine provide the ideal completion of the Grimme sugar beet technology line," says Franz Grimme, chairman. "Together with the Grimme Maxtron and Rexor harvesters with up to 30-tonne bunker capacity and the reworked Kleine BeetLiner Compact self-propelled topper harvester with 12-tonne bunker, they enlarge the product range to the widest program of sugar beet technology."

Grimme is determined to mirror its success with potato equipment by becoming a market leader in the sugar beet harvesting and handling sector, which it entered 10 years ago.

Turnover grew by about 30% last year in the face of stiff competition from the Dutch and French manufacturers Agrifac, Matrot and Moreau that are part of the Exel Industries group, and another two German makers, Holmer and Ropa, which both send machines across the Atlantic.

Holmer recently supplied its first beet harvester to Canada, and independent distributor ROPA North America, based in Wyoming City, Ontario. U.S. sales of Ropa equipment is handled by 21st Century Equipment Inc. based in Bridgeport, Neb., with 11 total locations.

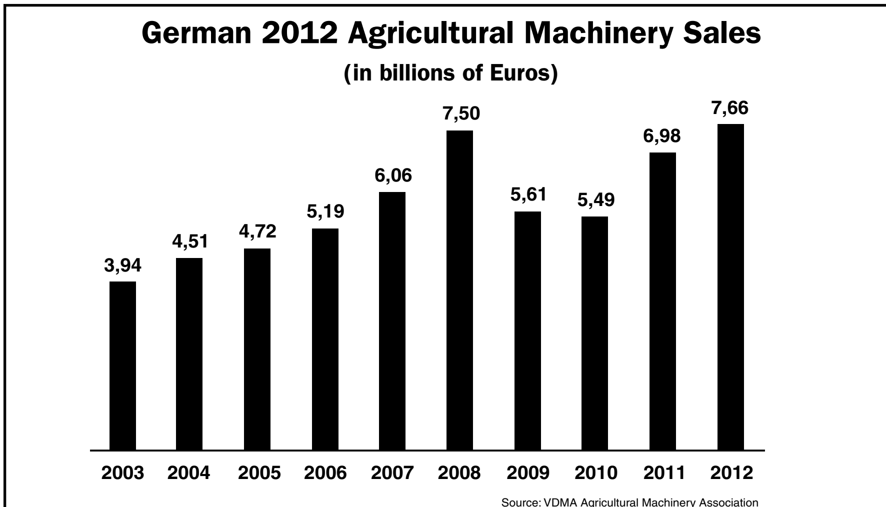
For its financial year, ending September 2012, the Grimme group recorded revenues equivalent to $340 million, only a little shy of the $353 million record set in 2011. But the group's U.S. operation set a new record: Spudnik Inc., located in Blackfoot, Idaho, with 220 employees, earned revenues of $60 million producing harvesters and other potato equipment for the Northern American, Russian and Chinese markets.

The Grimme group employs 2,000 people and opened two new factories toward the end of last year — one for self-propelled potato harvester assembly and another for the development and production of grading and handling systems. Grimme's Internorm subsidiary produces rigid and flexible plastic components for farm and other equipment.

2012 Sales of German Ag Machinery Surpasses $10 Billion for First Time

The agricultural machinery industry in Germany finished 2012 with a new record for sales. According to the VDMA, Agricultural Machinery Assn., manufacturers of tractors and agricultural machinery achieved a turnover of $10.2 billion (€7.66 billion), a growth of 10% compared to 2011 sales. Sales during the past year surpassed that of 2008, the previous highest year on record, by 2%.

"Manufacturers in Germany performed well in the worldwide industry upswing last year. Due to this growth, Germany has further increased its lead in agricultural machinery production within Europe," says Dr. Ing. Hermann Garbers, VDMA chairman.



German manufacturers of tractors and ag machinery saw sales rise to $10.2 billion (7.66 billion), a growth of 10% compared to 2011 sales, surpassing 2008 sales by 2%.

With 59,213 units, tractor production reached levels seen in 2011, while sales rose 5% to $4.77 billion (€3.56 billion). Half of the tractors produced in Germany last year were in the 120 horsepower (90 kW) and higher range. Average engine power of all tractors sold increased slightly to 146 horsepower (107 kW).

Strong sales emerged in the second half of the year, as turnover for forage harvesting machinery, tillage, planting equipment and plant protection machinery exceeded the overall trend.

The value of farm equipment in the past year generally surpassed that of the previous year, with particular strength seen by tractor manufacturers, who experienced record production in the first quarter.

According to VDMA, manufacturers are currently producing to capacity, with orders out an average of three months. Current order volume is similar to levels of 2011.

VDMA anticipates a stable sales trend for 2013, with a widely differing demand for new machinery depending upon the country. Not including domestic sales of farm machinery, the largest markets for Germany equipment are France and Russia.

AGCO 4Q Revenues Slightly Above Expectations; Outlook 'Flat' for 2013

AGCO posted net sales of $2.7 billion in the fourth quarter that ended on December 31, 2012, up nearly 7.4% from $2.52 billion in the fourth quarter of 2011. At the same time, the company's earnings slumped by 64% as the result of a higher tax rate, factory start-up costs in Germany and a $22.4 million write-down in its Chinese operations.

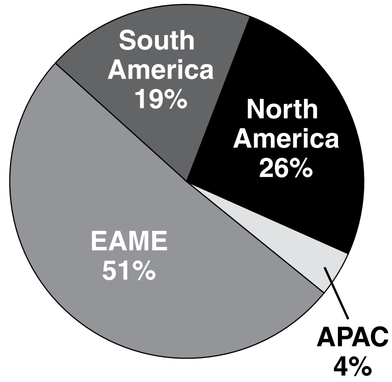
Nonetheless, the world's third largest farm equipment maker said in its February 5 earnings report that elevated crop prices would "support healthy farm income and sustain stable equipment demand" in 2013.

While overall production is expected to be flat for AGCO in 2013, the company expects increased revenues from higher pricing of 2.5-3%., according to Ann Duignan of JP Morgan.

Slow Start. The year is expected to get off to a slow start. "Overall, first half '13 revenue is expected to be flat with first half of '12," says Duignan. "Full-year expectations were unchanged. GSI is also expected to be flat in 2013, with North America down and growth instead coming from international markets.

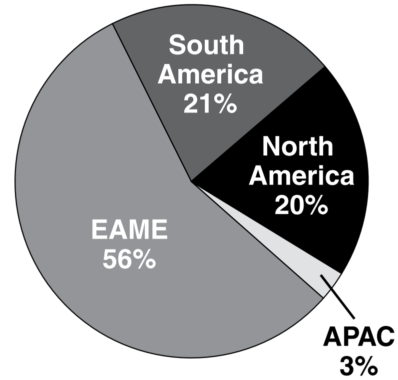
"Our 'neutral' rating on AGCO is predicated on increased risk in the North America business given drought conditions, which could particularly affect AGCO's grain storage and livestock businesses, as well as the company's exposure to agriculture in Europe and South America, which combined account for 75% of [our] 2013 segment profit estimates" in 2013. AEI

AGCO 2012 Regional Net Sales — $10 Billion



North American sales of AGCO equipment jumped to 26% in 2012 from 20% in 2011.

AGCO 2011 Regional Net Sales — $8.8 Billion



Europe, Asia and Middle East accounted for 56% of AGCO equipment sales in 2011.

AGCO Operations Results — 2012 vs. 2011

	Quarter Ended		Year Ended	
	12/31/2012	12/31/2011	12/31/2012	12/31/2011
Net Sales Equipment	$ 2703	$ 2,518	$ 9,962	$ 8,773
Gross Profit	$ 528	$ 524	$ 2,123	$ 1,776
Gross Margin	19.5%	18.5%	21.3%	20.5%
Operating Income	$ 907	$ 745	$ 193	$ 230
Operating Margin	7.1%	9.1%	9.1%	8.5%
NET INCOME	**$102.5**	**$285**	**$522**	**$583**

Sale of Bigham Brothers Shows Continuing Interest in Investing in Ag

On February 6, Nashville-based TVV Capital announced it had purchased Bigham Brothers Inc., a Lubbock, Texas-based manufacturer of agricultural equipment. It's another sign that companies associated with agriculture are becoming attractive targets for venture capital and private equity firms.

TVV is a buyout firm focused on niche manufacturing. According to a news release from the firm, the acquisition of Bigham Brothers is in keeping with the company's focus on acquiring niche manufacturing companies that hold "sustainable competitive advantages in stable and growing market segments."

In the news release, TVV describes Bigham Brothers' customers as "commercial farm operators who purchase the company's equipment through an independent dealer network of over 1,400 locations, with strengths in Texas, the Southwest and Mississippi Delta regions. The company's innovative products are used in both flat and raised bed planting environments and serve to reduce tractor fuel consumption, control soil and water erosion and aerate the soil.

"The acquisition of Bigham Brothers is a continuation of TVV Capital's focused approach, ability to independently source deals and cultivate relationships to identify and invest in high-growth opportunities on behalf of our investors," said Andrew W. Byrd, TVV Capital's president. "Given its management team, current market penetration and future product strategy in the sustainable agriculture movement, Bigham is poised for considerable growth and market expansion."

Continuing Interest. In a note to *Ag Equipment Intelligence*, George Russell, executive partner in Currie Management Consultants, says, "Since the financial downturn in 2008, and given the excellent years in farming and farm equipment, we receive calls almost monthly from private equity and venture capital companies with capital available who are looking for good investment alternatives.

"Farm equipment companies and farm equipment dealers are good candidates for these companies provided they have the scale and can show a good financial history."

Russell explains, "Typically farming has been counter-cyclical to the general economy so one might expect that farming will go down as the general economy improves. However, the long term fundamentals of farming are good, so even if there is a cyclical downturn, the overall trend is strong. This is one of the things we help explain to those investors who call. We are in a cyclical industry and we need to realize that now is a good time to sell because sooner or later, there will be a downturn." AEI

Ag Sales Continue Hot Streak in January

North American ag equipment retail sales grew across all categories in January, as row-crop, 4WD, mid-range, and compact tractor sales increased 26.9%, 89.1%, 11.9% and 21.1% year-over-year, respectively.

Combine sales rose by 16.9%, up from the 3.5% year-over-year increase in December.

"Retail sales were likely helped by an extension of bonus depreciation incentives through 2013 as a part of the American Taxpayer Relief Act," says Mircea (Mig) Dobre of RW Baird.

- Combine retail sales accelerated during the month, posting a 16.9% year-over-year increase following a 3.5% increase in December. During the last three months (L3M) sales increased 4.9% on a year-over-year basis following a 20% increase last month.
- U.S. combine inventories were 6.5% higher year-over-year in absolute terms in December vs. down 11.8% last month. January is typically an unimportant month for combine sales, accounting for only 5.4% of annual sales over the last five years.
- Row-crop tractor sales continue to grow, posting a 26.9% year-over-year increase, accelerating from the 18.6% increase in December; L3M sales increased 18.7%.
- U.S. row-crop tractor inventories increased 35.2% year-over-year in December vs. a 29.6% increase in November. January has been a relatively unimportant month for row-crop tractor sales over the last five years, typically accounting for 7.6% of annual sales.
- 4WD tractor sales increased 89.1% year-over-year in January, up from a 37.1% increase in December. U.S. dealer inventories rose 76.2% year-over-year in December, while days-sales of inventory year-over-year rose to 71 from 46 in December 2011.
- Mid-range tractor sales increased in January, up 11.9% year-over-year after a 4.2% increase last month. Compact tractor sales were up 21.1% year-over-year, up from the 13.5% growth last month. AEI

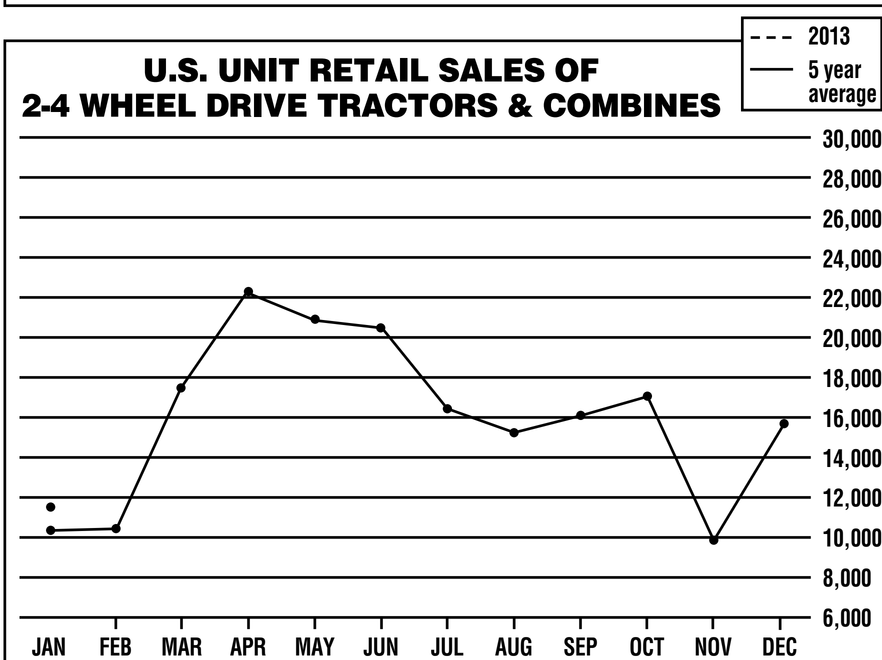
JANUARY U.S. UNIT RETAIL SALES

Equipment	January 2013	January 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	January 2012 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,170	3,524	18.3	4,170	3,524	18.3	59,446
40-100 HP	3,733	3,332	12.0	3,733	3,332	12.0	25,918
100 HP Plus	2,686	2,114	27.1	2,686	2,114	27.1	8,248
Total-2WD	10,589	8,970	18.0	10,589	8,970	18.0	93,612
Total-4WD	574	313	83.4	574	313	83.4	1,348
Total Tractors	11,163	9,283	20.3	11,163	9,283	20.3	94,960
SP Combines	538	445	20.9	538	445	20.9	957

JANUARY CANADIAN UNIT RETAIL SALES

Equipment	January 2013	January 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	January 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	553	375	47.5	553	375	47.5	7,873
40-100 HP	381	346	10.1	381	346	10.1	3,219
100 HP Plus	270	215	25.6	270	215	25.6	2,087
Total-2WD	1,204	936	28.6	1,204	936	28.6	13,179
Total-4WD	103	45	128.9	103	45	128.9	405
Total Tractors	1,307	981	33.2	1,307	981	33.2	13,584
SP Combines	78	82	-4.9	78	82	-4.9	452

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



—Assn. of Equipment Manufacturers

2012 a Tough Year for Ethanol; 2013 Not Much Better

Both U.S. ethanol prices and production fell in 2012 compared with the previous year. And the chances are good that it won't get a whole lot easier for producers in the year ahead.

According to a January 31 report from the U.S. Energy Information Admn., spot prices for U.S. fuel ethanol were lower throughout most of 2012 compared to 2011. Prices were relatively stable during the first half of 2012, but rose at mid-year as a severe drought reduced corn yields, resulting in higher prices for corn that is used to make nearly all U.S. ethanol.

Ethanol spot prices rose from a low of about $2 per gallon in mid-June to a peak of $2.61 in late July. This was still 30 cents per gallon lower than the peak spot price at about the same time in 2011.

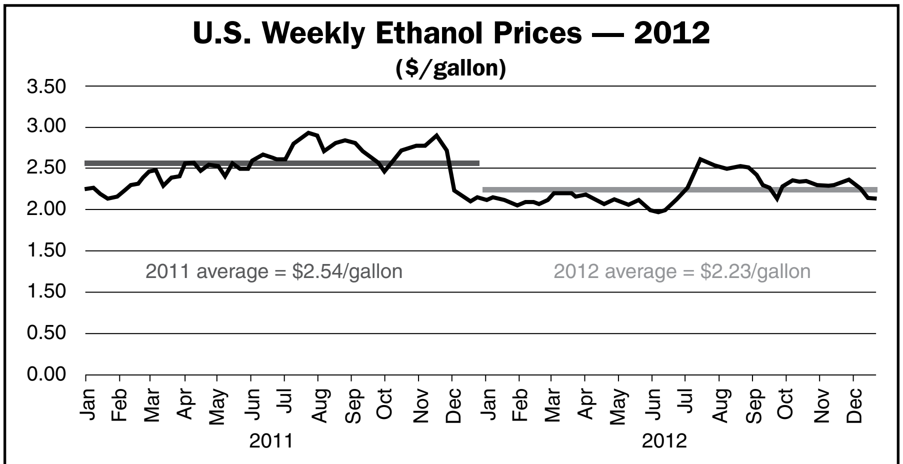
Corn Prices. Higher ethanol prices during the second half of 2012 were mainly the result of higher corn prices, which rose 35% from mid-June through August because of drought concerns, coupled with triple-digit temperatures. On top of this, the 2012-13 corn crop is expected to be the smallest in six years at nearly 10.8 billion bushels, according to USDA's January 2013 crop forecast, 13% smaller than the 2011-12 crop.

The ag agency indicates that about 4.5 billion bushels, or 42% of the corn harvest, will go to make ethanol. That level is down from just over 5 billion bushels used to make ethanol during the previous crop year.

Lower Production. The combination of lower corn supplies, higher corn prices and weaker gasoline demand contributed to U.S. ethanol output falling from an average 900,000 barrels per day (bbl/day) during the first half of 2012 to an average of 815,000 bbl/day during the latter half. This was about 90,000 bbl/day less than in the second half of 2011, according to EIA data.

Production capacity changed little in 2012. There were 194 ethanol plants in the U.S. at the beginning of 2012, with a maximum sustainable production capacity of 934,000 bbl/day.

Partly because of lower domestic ethanol production during the second half of 2012, the U.S. became a net importer of ethanol in August 2012 for the first time since January 2010. This was mostly sugar cane-based ethanol from Brazil, that it exported through October 2012, according to the latest available data.



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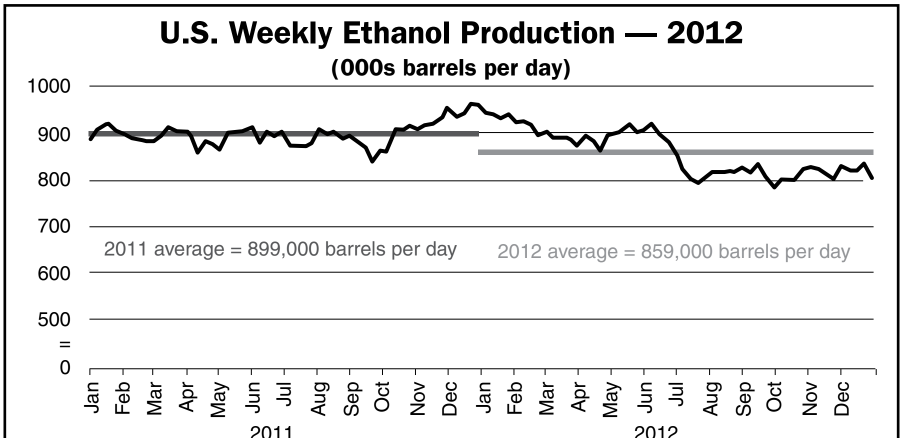

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Most gasoline sold in the U.S. contains 10% ethanol by volume. However, gasoline that is 15% ethanol, which the EPA approved as E15 in 2011 for use in vehicles built since 2001, began selling last summer. The volume was extremely small as only eight fueling stations in Kansas, Nebraska and Iowa were selling it by the end of the year.

Perfect Storm. Bob Dinneen, of the Renewable Fuels Assn., noted at the recent RFA conference that 2012 was a tough year for the ethanol industry and a perfect storm is brewing for 2013, and it will be tough to get E15 broadly distributed. There's little support from the automotive industry, and little interest from the oil industry to provide E15. As a result, the industry will have to find new demand in an environment where adversaries are strong and working more effectively together.

In 2011, the EU tried to block ethanol based on an anti-dumping case and Brazil changed its blend to support its sugar industry. As a result, the U.S. is now a net importer of ethanol. Beyond demand, the most critical challenge this year is the Renewable Fuel Standard as lobbyists are gathering momentum, according to Dinneen.

Much of the talk centers on repealing RFS, not just reforming the fuel standard. At this time, it doesn't appear there are 60 votes available in the Senate to support a repeal. AEI