

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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- Used Machine Values
- AGCO & GSI
- Krone's U.S. Stores

## Rocky Mountain Posts Big 4Q Numbers, But Market Share Push Creates Questions

It was mostly good news for Rocky Mountain Equipment (formerly Rocky Mountain Dealerships) as it posted vastly improved numbers for its fourth quarter and full year 2012. They were good enough for one analyst to upgrade the RME stock to "outperform," while also expressing concerns about Rocky's pursuit of market share.

On March 11, the Calgary-based dealership group reported its fourth-quarter revenues increased by 25% to \$300.8 million, 17.6% on same store

sales. Revenue for the full year rose by 20.3% to \$966.1 million, 16.3% on same store sales.

Gross profit during the last quarter of the year came in at 24.1% to \$45.9 million, which was 15.2% of sales. For the full year, gross profit was 17.8%, or \$147.5 million, which was 15.3% of sales.

Matt Campbell, CEO of Rocky, noted in a release that the dealer group re-branded its entire dealership network, "unifying it under the name 'Rocky Mountain Equipment,' and are

working toward leveraging the benefits a single, strong brand can provide."

Campbell also said, "2012 saw a significant increase in the amount of new and used inventory sold. While this created some downward pressure on our gross margins during the year, we were able to increase our market share and our customer base. We will now work toward translating this larger equipment base into increased product support revenues going forward. In short, we feel we are

*Continued on page 2*

## Feed Costs Continue to Weigh on Livestock Production, Pricing & Hay Tool Sales

The outlook for equipment dealers catering to the livestock segment of U.S. agriculture will gradually improve as 2013 progresses with projected prices for cattle, hogs, broilers and milk continuing to rise and, in some cases, hit record highs. But many dealers expect that sales of hay tools will lag until input costs show some semblance of balance.

Typically, during periods of a rapid run-up of input costs, producers tend to delay major equipment purchases and it appears this is the case with the sale of hay tools. According to the latest *Ag Equipment Intelligence* "Dealer Sentiment & Business Conditions Update" report, since June 2012 the sale of hay tools has shown no discernible increase in retail sales. More recently, sales have fallen behind the slow pace recorded a year ago. Most dealers say it's a reflection of the difficult livestock and dairy markets of the past year, together with the rising cost of feed.

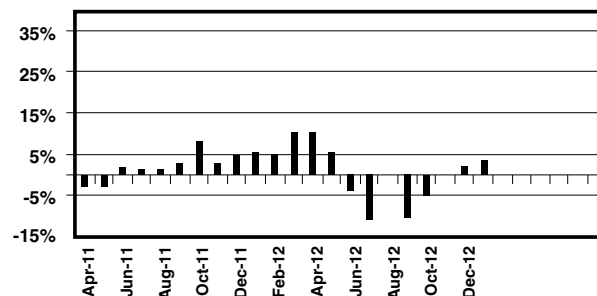
**Higher Feed Costs.** For the third time since 2007, livestock, dairy and poultry producers are experiencing sharply higher feed costs this year combined with poor pasture conditions and with limited safety net programs on which to fall back, according to Joseph Glauber, USDA's chief economist.

While the rising price of corn is given most of the blame for the rising cost of livestock feed, Glauber notes

that the same drought that devastated crop yields in 2012, took a major toll on hay and alfalfa crops, as well, further exacerbating producers' problems. Almost two-thirds of U.S. pasture and hay crops were in drought conditions with almost 60% of pasture conditions rated poor or very poor for most of July, August and September 2012.

*Continued on page 8*

### Hay Tool Sales Continue to Limp Along in 2013



Source: *Ag Equipment Intelligence* "Dealer Sentiments & Business Conditions Update" report, February 2013

Following some encouraging growth through the first half of 2012, North American sales of hay tools declined in the second half of the year. That trend has continued into 2013.

well positioned as a result of our 2012 initiatives and results to continue to grow well into the future."

### Pushing Market Share.

According to Raymond James analyst Ben Cherniavsky, at \$0.62, Rocky easily beat EPS estimates for the quarter. He had projected \$0.56 and consensus was \$0.53.

In his analysis, Cherniavsky told investors, "Rocky's EPS 'beat' was strictly a function of much better than expected new machine sales, which increased 48% year-over-year to \$196 million, well above our \$148 million forecast. This was partially offset by lower than expected used equipment sales, which fell 3% year-over-year and aftermarket revenues, which were flat year-over-year.

"Management indicated that they have been very aggressive in pursuit of market share, which is evident in the strong new machine sales growth," said Cherniavsky. "This, we feel, is also evident in underperforming gross margins, inflated used inventory levels and the related increase in debt (i.e. market share gains are easy to achieve by discounting prices and/or accepting lots of trades)."

While making a point of not down playing Rocky's solid sales numbers for the period and full year, Cherniavsky added, "We still believe that Rocky should have more to show in its numbers after nearly two years of focused internal productivity initiatives. ROIC metrics, in particular, remain a disappointment. On one hand, this continues to temper our enthusiasm for the story. On the other hand, we believe that these issues have become reflected in Rocky's discounted valuation.

"We also believe that within our universe of machinery stocks, exposure to the ag market vs. construction, mining and/or energy will be a relatively attractive attribute for 2013," said Cherniavsky.

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## How GSI Plays into AGCO's Long-Term Plans

You can't help but notice that farm equipment makers, especially the major full-line companies, are rushing to set up manufacturing and sales facilities overseas. And we've all heard about the growing number of mouths that farmers will have to feed over the next several decades.

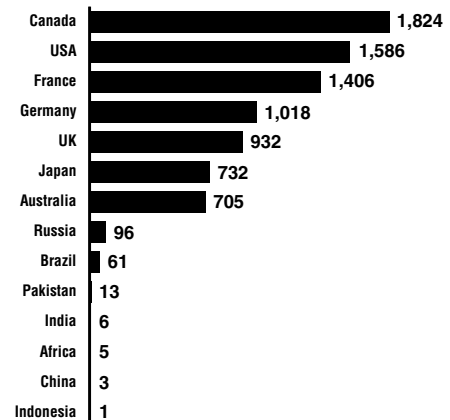
But for the equipment makers, the need to expand in countries like Africa goes beyond simply nourishing a growing world population. It's about the lack of farm mechanization, not only in the third-world countries, but also some of the biggest ag producers in the world.

The chart at right shows that once you get beyond seven of the largest food producing countries, the rest of the world is woefully lacking in any semblance of farming technology and advanced equipment. AGCO showed this chart to industry analysts during a briefing in December.

In his report on the briefing, Mike Williams wrote for *Seeking Alpha* in February that world population growth is generally a well understood macro trend, "but its significance and strength is overwhelming and oftentimes understated. Population growth on the African continent is set to explode over the next several decades, and we'll continue to see significant growth in protein and grains consumption in Asia. Despite China's rapid economic growth over the past decade, farming practices are still well behind those of the Western World."

For example, Sub-Saharan Africa's current population, at 856 million, is little more than Europe's and a fifth of Asia's. By 2050 it could be almost three times Europe's and by 2100 might even be three-quarters of the size of Asia. By any measure, Africa is by far the fastest growing continent."

### Mechanization Level Comparison (unit of tractor/1,000 farmers & ag industry workers)



Source: World Development Indicators, World Bank

**Beyond the seven largest food producing countries, the ag sector in rest of the world is lagging far behind in farm mechanization, let alone any of the advanced technologies available to farmers today.**

Williams says he found these figures to be a bit surprising, but they speak volumes about global growth opportunities. While tractors, planting and harvesting equipment all stand to benefit, he says that some of the strongest potential lies with companies like GSI Holdings, which AGCO acquired in November 2011.

GSI generates nearly two-thirds of its \$700 million in annual revenues from grain storage products and the rest from products related to protein production.

"Though the infrastructure is essentially just beginning to be constructed in Africa, now is the time to invest in the opportunity," he says. "John Deere is making similar investments in Africa, but I like the specific upside in the proteins and grain storage businesses that GSI runs. This is the 'tail' in the AGCO investment thesis; while not a near-term catalyst, longer-term investors should enjoy this dynamic for years to come."

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# Tillage Tool Maker, Lemken, Records Double-Digit Growth

Tillage equipment manufacturer Lemken has embarked on a \$65 million program to build new workshops, production plants and supply facilities to support growth plans after setting a new sales record in the year it moved decisively into the U.S. market.

The German manufacturer passed the \$390 million turnover mark for the first time in 2012 by lifting sales over the prior year by 20% to the equivalent of \$442 million.

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"Above all, the good prices for agricultural products led to a positive mood among farmers, who are continuing to become more professional by investing in modern agricultural machinery," says Dr. Franz-Georg von Busse, managing director of the family owned business.

To underpin future growth potential, Lemken is expanding its headquarters site once more to "substantially increase" manufacturing and assembly capacity. In addition, construction is scheduled to begin by mid-2013 of a new product development plant, which will feature a test facility and accommodate an expanding engineering workforce.

Last year, Lemken's factories in Germany produced almost 15,000 moldboard plows; tine, disc and powered cultivators; seed drills; and sprayers. Group production will rise significantly this year as new production sites in India and China step up output.

The U.S. market is being tackled through a new sales and marketing

company set up last fall, headed by Jim Balstad in West Fargo, N.D., and with Cord Diekmann in Boise, Idaho, covering the western sales area. Initial focus is on recruiting dealer outlets for the Rubin and Heliodor compact disc cultivators and Karat heavy duty chisel plow. Pioneer Equipment Co. in Idaho and California, and Mountain View Equipment in Idaho and Washington State are representing the Lemken line.

After 20 years with Lemken, Dr. Franz-Georg von Busse has started handing over responsibilities to his successor Anthony van der Ley, a highly experienced executive. He is cautiously optimistic that the business will see sales growth this year.

"High capacity utilization at the start of this year points to continuing excellent business performance," he says. "Provided the positive investment mood continues, I expect 2013 to bring further growth, although not to the same extent as in the two previous years."

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## FARM MACHINERY TICKER (AS OF 03/12/13)

| Manufacturers            | Symbol | 03/12/13 Price | 02/11/13 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|--------------------------|--------|----------------|----------------|-------------|------------|-----------|-------------|-------------|
| Ag Growth Int'l.         | AFN    | \$33.50        | \$32.35        | \$41.95     | \$27.80    | 17.54     | 42,377      | 417.78M     |
| AGCO                     | AGCO   | \$54.15        | \$54.87        | \$55.04     | \$38.09    | 10.22     | 1,006,060   | 5.25B       |
| Alamo                    | ALG    | \$39.97        | \$33.97        | \$40.16     | \$27.00    | 16.65     | 30,042      | 478.24M     |
| Art's Way Mfg.           | ARTW   | \$6.49         | \$7.09         | \$8.80      | \$6.06     | 9.83      | 6,228       | 26.18M      |
| Blount Int'l             | BLT    | \$13.81        | \$17.31        | \$17.49     | \$12.46    | 17.48     | 409,698     | 680.87M     |
| Buhler Ind.              | BUI    | \$5.99         | \$6.25         | \$7.25      | \$5.04     | 8.68      | 4,293       | 149.75M     |
| Caterpillar              | CAT    | \$89.74        | \$96.60        | \$114.25    | \$78.25    | 10.58     | 5,928,870   | 58.78B      |
| CNH Global               | CNH    | \$43.60        | \$47.66        | \$49.99     | \$34.36    | 9.19      | 547,890     | 10.57B      |
| Deere & Co.              | DE     | \$90.85        | \$93.23        | \$95.60     | \$69.51    | 11.36     | 2,871,400   | 35.39B      |
| Hemisphere GPS           | HEM    | \$0.79         | \$0.89         | \$0.98      | \$0.56     | N/A       | 75,908      | 52.36M      |
| Kubota                   | KUB    | \$63.98        | \$56.08        | \$65.13     | \$40.61    | 18.49     | 35,082      | 16.07B      |
| Lindsay                  | LNN    | \$88.16        | \$91.59        | \$94.90     | \$52.68    | 20.52     | 189,072     | 1.13B       |
| Raven Industries         | RAVN   | \$29.99        | \$25.75        | \$37.73     | \$23.01    | 21.05     | 117,325     | 1.09B       |
| Titan Int'l              | TWI    | \$20.89        | \$26.37        | \$29.95     | \$16.86    | 11.40     | 1,062,920   | 1.12B       |
| Trimble Navigation       | TRMB   | \$60.47        | \$59.58        | \$64.06     | \$40.02    | 40.58     | 676,323     | 7.72B       |
| Valmont Industries       | VMI    | \$159.00       | \$149.10       | \$162.26    | \$106.52   | 18.17     | 152,768     | 4.24B       |
| <b>Retailers</b>         |        |                |                |             |            |           |             |             |
| Cervus Equipment         | CVL    | \$19.50        | \$19.40        | \$21.39     | \$16.90    | 13.18     | 8,917       | N/A         |
| Rocky Mountain Equipment | RME    | \$12.89        | \$12.44        | \$13.24     | \$10.07    | 11.41     | 31,608      | 242.14M     |
| Titan Machinery          | TTTN   | \$29.39        | \$29.26        | \$36.92     | \$19.07    | 13.84     | 355,262     | 611.69M     |
| Tractor Supply           | TSCO   | \$102.92       | \$103.20       | \$105.37    | \$75.46    | 27.08     | 699,065     | 7.12B       |

# Farm Equipment Used Values Holding Up Through 1Q13

With the exception of combines, North American farm equipment dealers are reporting that the value of most used ag machinery continued to hold firm through February and there's little evidence of any significant shift toward lower pricing in the near term.

According to the February 2013 "Dealer Sentiment & Business Conditions Update" released last week, many dealers say that interest in good used high horsepower tractors is particularly keen and they could use additional inventory.

The survey, which is conducted monthly by *Ag Equipment Intelligence* and Cleveland Research Co., revealed that on average the price of used tractors over 100 horsepower is now up 2.5% year-over-year. Prices for used tractors under 100 horsepower are up a more modest 1.7%.

When it comes to used combines, values were down 2% in February following a drop of 1.9% the previous month. A net 16% of dealers report used combine values are lower than last month.

Compared to January, a net 7% of dealers report higher values for under 100 horsepower and utility tractors. For over 100 horsepower tractors, a net 21% of dealers report higher values vs. last month.

**At Auction.** In his latest release, Greg Peterson, reports, "Values on good used tractors shot up noticeably in August 2012 and stayed strong through year end. But values on good used tractors have skyrocketed since the calendar flipped to 2013."

During the first week of March, Peterson says he saw a least two new record highs for tractors during an auction in Minnesota. A one-owner 1988 John Deere 4450 with 2,612 hours sold for \$70,750. He says the previous high he'd seen on similar tractors in the past 17-plus years was \$50,750.

Another record was set when a 1988 John Deere 4650 with 3,043 hours sold at the auction for \$59,500.

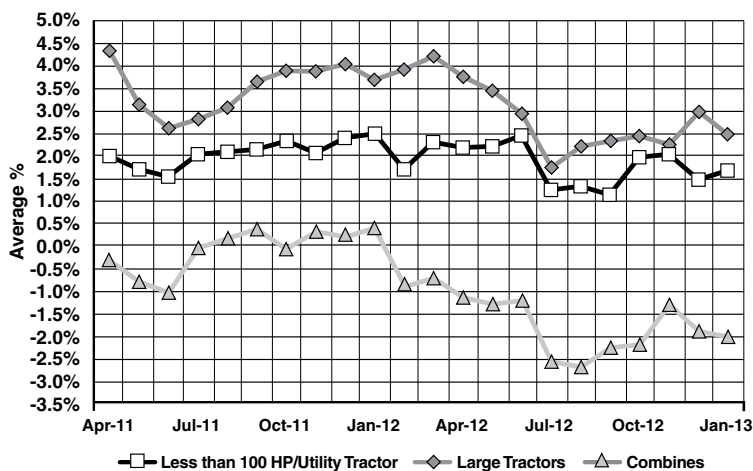
Peterson says he's also seeing strong pricing on used tillage equipment. At the same Minnesota auction, a John Deere 235 30 foot disc fetched \$15,000. The previous high he had seen was \$12,800 in March 1996.

A Deere 400 40 foot rotary hoe sold recently for \$8,000, which was the third highest auction price Peterson had seen. Also, a Deere 960 40 foot field cultivator sold for \$11,800. This was the third highest auction price Peterson had recorded in the past 12 years.

**Dealer Concerns.** In the commentary section of the "Dealer Sentiments" report, some dealers expressed concern that the rising used machinery prices are a reflection of the skyrocketing prices of new machinery.

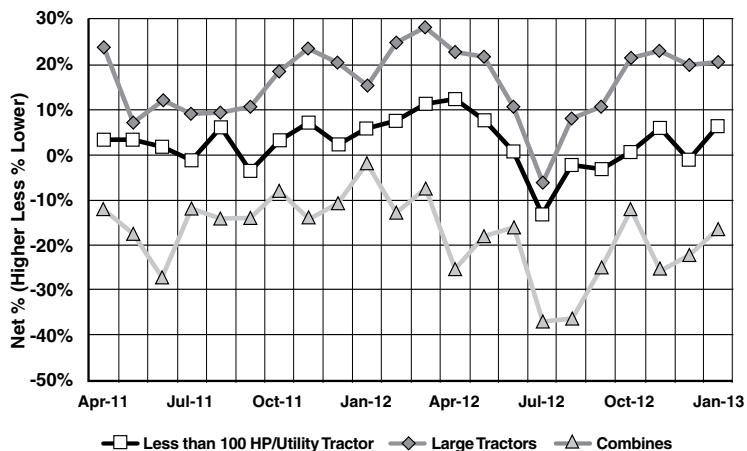
One dealer says, "I'm concerned about the push-back on prices [of new equipment] and what we can sell used for. Used continues going higher."

## Current Used Farm Equipment Values vs. One Year Ago



On average the price of used tractors over 100 horsepower is now up 2.5% year-over-year. Prices for used tractors under 100 horsepower are up a more modest 1.7%, but used combine values were down 2% in February.

## Used Equipment Values February 2013 vs. January 2013



Compared to January, a net 7% of dealers report higher values for under 100 horsepower and utility tractors. For over row-crop tractors, a net 21% of dealers report higher values vs. last month.

Other dealer commentary on used inventory levels included: "We are very low on late model used tractors" ... "We need more used higher horsepower row-crop tractors in inventory" ... "We actually need more used tractors."

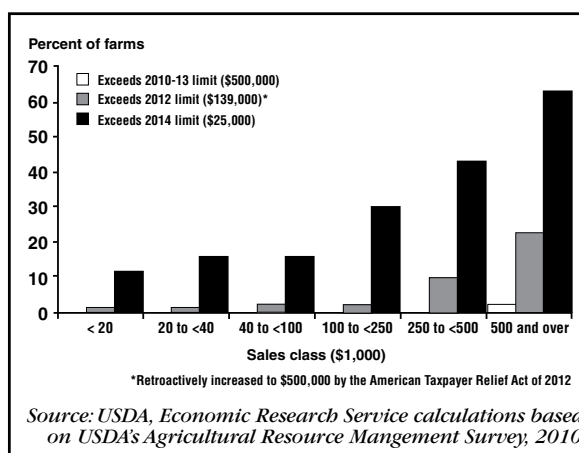
But growing inventories of combines continue to be dealers biggest concern. Most comments offered by dealers in this month's survey involved worries about their backlog of combines: "I have too many used combines and platforms" ... "Combines just need to turn quicker" ... "I still have too many combines" ... "Used combines are still my #1 issue" ... "With large new sales, used inventory have grown primarily in combines" ... "Newer used combines are everywhere."

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## Large Farms Likely to Be Affected by Business Expensing Limits

Most dealers will tell you that at least part of the surge in new equipment sales during the past few years was fueled by generous depreciation rules. Despite this, the February 2013 issue of USDA's *Amber Waves* magazine suggests that it will be the larger farm operations that will be most affected by the upcoming changes to the rules.

The ability of business owners, including farmers, to deduct the cost of depreciable capital in the year of purchase reduces their tax liability and encourages additional investment. Although the cap is scheduled to drop in 2014, the American Taxpayer Relief Act of 2012 extended provisions allowing depreciable property to be expensed currently, while retroactively raising the 2012 expensing limit. Based on the 2010 Agricultural Resource Management Survey (ARMS), about 18% of all farms reported investing more than the prior 2012 expensing limit of \$139,000, while just over 1% invested more than the revised limit of \$500,000. If the expensing limit drops to \$25,000 in 2014, as current law provides, large farms would be affected most. Less than 20% of smaller farms — those with less than \$250,000 in annual sales — invested more than \$25,000 in 2010, while nearly 55% of large farms reported capital purchases exceeding that amount.



## Amazone Equipment Sales Jump 35% to \$598 Million

As celebrations of the group's 130th anniversary got underway, the manufacturer of Amazone equipment in Germany reported another significant boost in sales volumes and revenues.

The sales turnover figure equivalent to \$598 million for the 2012 fiscal year is up 16% on the year prior when Amazonen-Werke saw a 35% recovery in sales to beat its previous record high in the buoyant 2008 market.

"Amazone will continue to grow, although we must ensure that the development is manageable," say directors Christian Dreyer and Dr. Justus Dreyer of the family-owned company. "Our objective, which is to top the €500 million (\$650 million) turnover mark, is getting closer."

The objective is not "turnover for turnover's sake," they insist, but rather to sustainably meet demand for Amazone machinery. Therefore, parallel to the turnover increase in 2012, the equivalent of \$26 million was invested in extending infrastructure, 5% of sales was spent on product research and development, and the number of employees increased to 1,700, with particular emphasis on aftersales service and electronics development.

"Technical progress is dominated by the use of electronics and this means Amazone machinery becomes increasingly 'intelligent,'" says Dr. Justus Dreyer. "More precision in application, additional cost savings, more environmental compatibility and greater operational comfort

for the operator are the clear benefits that we can achieve via electronics."

The group's on-going investment program in new and expanded production facilities was begun in 2008, with a new greenfield site for large area seeders and precision planters continuing to grow a few miles from the headquarters plant.

More than \$7.5 million has been spent on a powder paint coating facility and storage hall where the Catros compact disc harrow and mulch tillage cultivators are built. Another \$3.25 million has gone to two new production plants, an expanded quality testing facility and bigger offices at another plant that builds self-propelled sprayers, bulk spreaders and no-till drills.

## Krone Posts 25% Rise in Equipment Sales; Opens U.S. Retail Stores

Record sales of ag machinery were posted by Krone in a year that saw the company open improved shipping facilities at its headquarters plant, as well as its own dealerships in the U.S. for the first time.

Sales of Krone hay and forage equipment in the group's 2011-12 financial year to the end of September amounted to the equivalent of \$677 million at current exchange rates. That figure is up \$135 million or almost 25% from the \$542 million recorded in the previous 12 months and accounts for more than 35% of group turnover.

The factory at Spelle in northern

Germany manufactured more than 20,000 machines, with about a third each going to farmers and custom operators in Germany and central Europe, 17% to eastern Europe and 15% to markets further afield, including the U.S., Japan, Australia, New Zealand and China.

Investment spending increased by more than 26% from \$15.5 million to \$19.5 million. A bulk of the spending centered on a new logistics center at Spelle equipped to dispatch 150-200 machines a day.

Krone moved to protect its position in the U.S. market by setting up two dealerships in California and

Wisconsin after the independent dealers covering the territories reportedly came under pressure to focus on their major supplier's brand.

Investing in Krone Wisconsin — Fox Valley Service & Sales, Kaukauna, Wis., and Krone California — San Joaquin Valley Service & Sales, with branches at Turlock and Tulare, Calif., emphasizes the importance Krone attaches to the U.S. market.

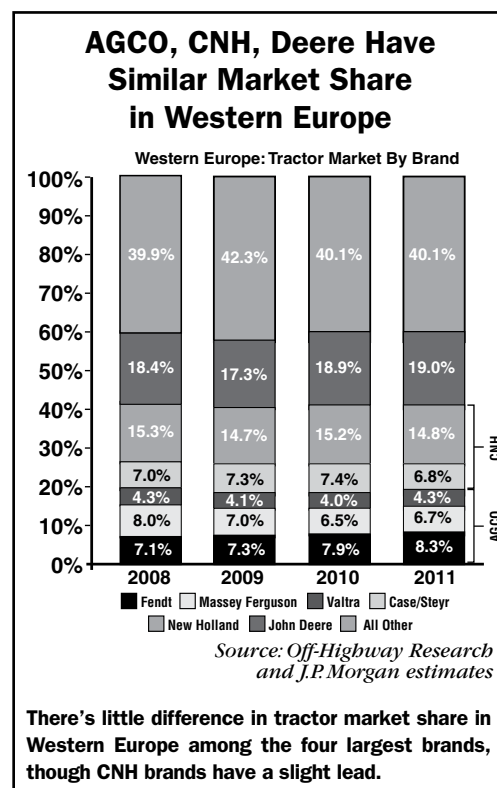
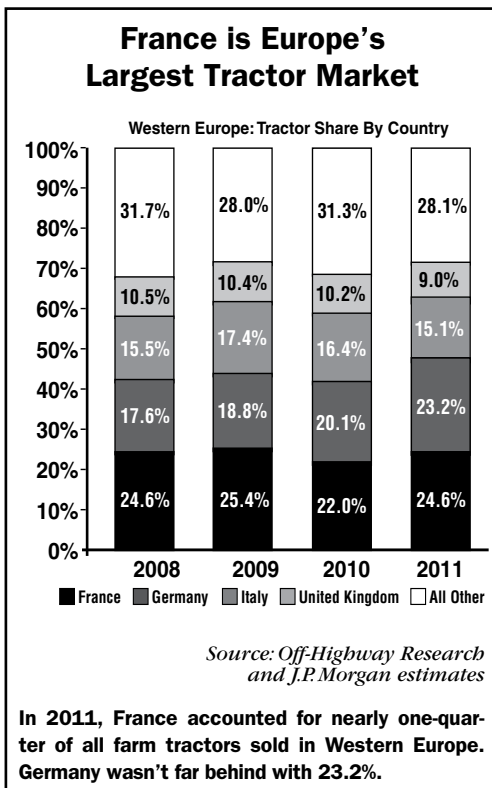
But it does not mark a new policy of company-owned stores, managers emphasize. Like other manufacturers, Krone prefers to sell through independent dealerships.

## AGCO, CNH & Deere Share Western Europe Tractor Market

France continues to be the dominant player when it comes to tractor sales in Western Europe, and no one tractor maker dominates the market in the region.

According to a February 26 JP Morgan investor note from Ann Duignan, each of the big three farm equipment makers pretty much shared 60% of all farm tractor sales throughout Western Europe between 2008-11. CNH brands — New Holland and Case IH — have a slight edge in sales in France (20%) over AGCO brands — Fendt, Valtra and Massey Ferguson (19%). John Deere claims about 16% of the French market.

According to Duignan, there's been very little movement when it comes to tractor market share in the region between 2008-11. AGCO earned a 19.4% share in 2008 and a 19.3% share in 2011. CNH had a 22.3% share in 2008, dropping slightly in 2011 to 21.6%. Deere saw its market share rise somewhat during the period from 18.4% in 2008 to 19% by 2011.



Duignan, who attended SIMA, the major biannual agriculture show in Paris in late February reports, "While this is a regional show with mostly French farmers attending, the atmosphere was (surprisingly) significantly more upbeat than what we have seen at any of the prior SIMA shows we have attended."

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## Investment Group Breathes New Life into Tractor-Loader Builder Stoll

New investors who pledge to support the company's development and international expansion have secured the future of Europe's second largest tractor loader brand, Stoll.

German investment company DMB, which manages all direct investments of the Hamburg-based ER Capital Group and co-investors, specializes in profitable mid-size businesses with an enterprise value of up to \$65 million. Stoll is the only agricultural equipment company in its portfolio.

"With DMB we have found a strong and experienced partner, which fits in well with us and our culture in many dimensions," says Sven Reinke, Stoll managing director. "DMB is committed to actively support the

further development of our group."

The new majority investor takes over ownership of Wilhelm Stoll Maschinenfabrik from Freudendahl Invest, the Danish holding company behind the JF hay equipment business. It acquired Stoll in 1999.

The investment by DMB brings to a close a torrid few years for the family-owned Freudendahl Invest business, which was taken over by its bank two years ago as losses spiraled in the wake of the agricultural industry's recent financial hiatus.

JF was declared bankrupt in September 2011 and purchased within days by the Danish farmer-owned co-operative DLG and its Kongskilde Industries subsidiary.

Freudendahl Invest was itself

declared bankrupt in November last year, having reported net losses growing from more than \$7.4 million in 2009 to over \$14 million in 2011. That freed managers at Stoll to seek new investors, which they found in DMB.

Kim Buchwald, chairman of the board of Stoll comments: "Over recent years, Stoll has successfully concentrated on the development, production and international distribution of front loaders. It's a profitable, growing company, with 500 employees and revenues of more than \$104 million that is well positioned to benefit from the opportunities lying ahead."

In the U.S., the loaders are distributed through the Buffalo, N.Y., branch of Stoll North America, which is based in Fort Erie, Ontario, Canada.

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## Strong Sales Trends Continue in February

North American sales of ag machinery in February, as reported by the Assn. of Equipment Manufacturers, represented "more of the same" that dealers and manufacturers have seen in the past year or more: a strong upward trend.

According to Mircea (Mig) Dobre, machinery analyst with RW Baird, U.S. and Canada ag equipment retail sales grew across all categories in February, as row-crop, 4WD, mid-range and compact tractor sales increased 27.2%, 37.9%, 5.8% and 17.2% year-over-year, respectively. Combine sales accelerated, up 69.9%, following the 16.9% year-over-year increase observed last month. Inventory levels continue to rise, though supported by strong unit sales growth.

- The last three months (L3M) sales of combines grew by 19.2% on a year-over-year basis following a 4.9% increase last month. U.S. combine inventories were 19.1% higher year-over-year in absolute terms in January vs. up 6.5% last month. February is typically the least important month for combine sales, accounting for 4.8% of annual sales over the last five years.

- Row-crop tractor sales continue to grow, posting a 27.2% year-over-year increase, accelerating slightly from the 26.9% increase seen in January; L3M sales increased 23.2%. U.S. row-crop tractor inventories increased 43.5% year-over-year in January vs. a 35.2% increase in December. February has been a relatively unimportant month for row-crop tractor sales over the last five years, typically accounting for 6.6% of annual sales.

- 4WD tractor sales increased 37.9% year-over-year in February, down from an 89.1% increase in January. U.S. dealer inventories of 4WD tractors increased 44.4% year-over-year in January, while days-sales of inventory also increased year-over-year to 67 from 58 in January 2012.

- Mid-range tractor sales increased in February, up 5.8% year-over-year after an 11.9% increase last month. Compact tractor sales were up 17.2% year-over-year, down from the 21.1% growth last month.

**AEI**

### FEBRUARY U.S. UNIT RETAIL SALES



| Equipment                      | February 2013 | February 2012 | Percent Change | YTD 2013      | YTD 2012      | Percent Change | February 2013 Field Inventory |
|--------------------------------|---------------|---------------|----------------|---------------|---------------|----------------|-------------------------------|
| <b>Farm Wheel Tractors-2WD</b> |               |               |                |               |               |                |                               |
| Under 40 HP                    | 4,603         | 3,981         | 15.6           | 8,762         | 7,505         | 16.7           | 61,226                        |
| 40-100 HP                      | 3,343         | 3,140         | 6.5            | 7,067         | 6,472         | 9.2            | 26,909                        |
| 100 HP Plus                    | 2,163         | 1,785         | 21.2           | 4,849         | 3,899         | 24.4           | 8,114                         |
| <b>Total-2WD</b>               | <b>10,109</b> | <b>8,906</b>  | <b>13.5</b>    | <b>20,678</b> | <b>17,876</b> | <b>15.7</b>    | <b>96,249</b>                 |
| <b>Total-4WD</b>               | <b>523</b>    | <b>421</b>    | <b>24.2</b>    | <b>1,097</b>  | <b>734</b>    | <b>49.5</b>    | <b>1,330</b>                  |
| <b>Total Tractors</b>          | <b>10,632</b> | <b>9,327</b>  | <b>14.0</b>    | <b>21,775</b> | <b>18,610</b> | <b>17.0</b>    | <b>97,579</b>                 |
| <b>SP Combines</b>             | <b>533</b>    | <b>310</b>    | <b>71.9</b>    | <b>1,071</b>  | <b>755</b>    | <b>41.9</b>    | <b>1,111</b>                  |

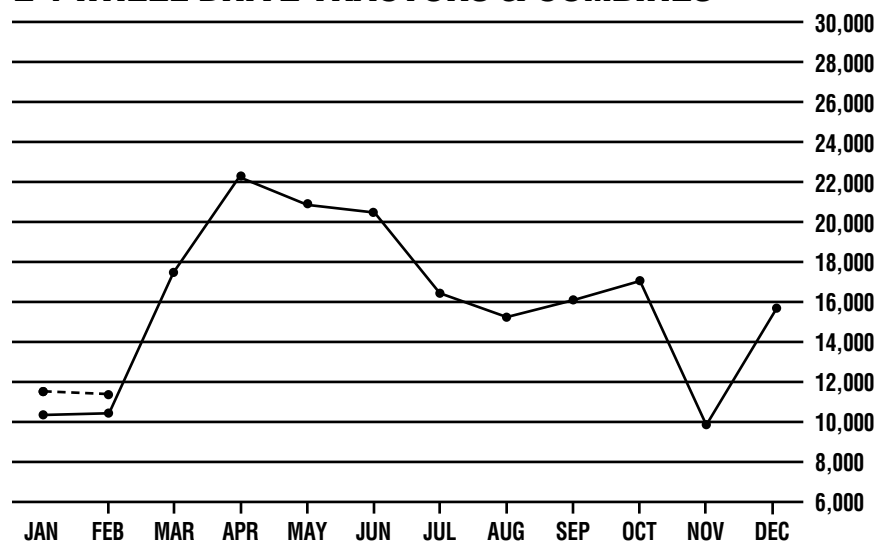
### FEBRUARY CANADIAN UNIT RETAIL SALES



| Equipment                      | February 2013 | February 2012 | Percent Change | YTD 2013     | YTD 2012     | Percent Change | February 2013 Field Inventory |
|--------------------------------|---------------|---------------|----------------|--------------|--------------|----------------|-------------------------------|
| <b>Farm Wheel Tractors-2WD</b> |               |               |                |              |              |                |                               |
| Under 40 HP                    | 499           | 373           | 33.8           | 1,048        | 748          | 40.1           | 8,064                         |
| 40-100 HP                      | 391           | 388           | 0.8            | 771          | 734          | 5.0            | 3,273                         |
| 100 HP Plus                    | 425           | 249           | 70.7           | 695          | 464          | 49.8           | 2,285                         |
| <b>Total-2WD</b>               | <b>1,315</b>  | <b>1,010</b>  | <b>30.2</b>    | <b>2,514</b> | <b>1,946</b> | <b>29.2</b>    | <b>13,622</b>                 |
| <b>Total-4WD</b>               | <b>146</b>    | <b>64</b>     | <b>128.1</b>   | <b>249</b>   | <b>109</b>   | <b>128.4</b>   | <b>473</b>                    |
| <b>Total Tractors</b>          | <b>1,461</b>  | <b>1,074</b>  | <b>36.0</b>    | <b>2,763</b> | <b>2,055</b> | <b>34.5</b>    | <b>14,095</b>                 |
| <b>SP Combines</b>             | <b>89</b>     | <b>56</b>     | <b>58.9</b>    | <b>167</b>   | <b>138</b>   | <b>21.0</b>    | <b>548</b>                    |

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

--- 2013  
— 5 year average



—Assn. of Equipment Manufacturers

The price of hay and alfalfa has more than doubled in the past decade. According to USDA, in January of this year, the per-ton all-hay price was \$192, up 11% vs. a year earlier. It's also up from less than \$81 a decade ago. During that same 10-year span, the per-ton price of alfalfa rose to \$217 from \$87 in 2003-04. Compared to January 2012, the price of alfalfa was up 12.4%.

This, combined with a reduction in acres planted to hay, placed further stress on an already difficult market for livestock producers.

Overall, alfalfa and dry hay production during 2012 was down 20% compared to 2011. According to USDA statistics, this was the lowest production level since 1953. Harvested acres also declined by 10% last year vs. the previous year. This was the smallest harvested acreage since 1948. Yield (tons/acre) also fell from 2.43 in 2010 to 2.36 in 2011 to 2.13 in 2012.

To assist livestock producers affected by last year's drought, a record 2.8 million acres of Conservation Reserve Program (CRP) land was opened to haying and grazing. By comparison, just over 1 million acres of CRP land was made available for emergency haying and grazing in 2011. In 2005, 1.7 million acres of CRP land was made available under similar circumstances.

**Better Pricing, But.** Speaking at the USDA Agricultural Outlook Forum in February, Glauber said he expects prices for livestock, dairy and poultry products to be up in 2013. "Nonetheless, the livestock, dairy and poultry sectors face continued tight margins in 2013, at least until new crop feed grains and soybeans reach the market in the late summer and fall. Another year of below trend yields and high prices would likely result in further liquidation [of herds]. The U.S. cattle and calf herd is at its lowest level since 1952."

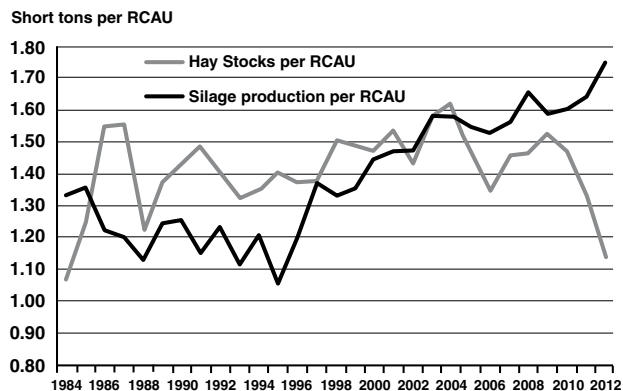
Glauber adds that high prices ahead of planting should encourage large corn and soybean acreages, and "assuming normal yields, stock levels should rebuild and prices should moderate in 2013-14. Lower feed costs will bring relief to livestock, dairy and poultry producers and allow modest

expansion over the next 12 months."

Equipment dealers and manufacturers *Ag Equipment Intelligence* spoke with during the Ag Connect Expo and National Farm Machinery Show say that producers are replacing equipment on an as-needed basis, and don't expect a significant increase in hay tool sales for 2013.

At the same time, they say pent-up demand for new equipment is building. If USDA's projections for rising prices for animal products and declining costs for feed grains materialize, the sales of hay tools should improve somewhat. But as producers have culled their herds, it could take more than a couple of years to get them back to 2011 levels. **AEI**

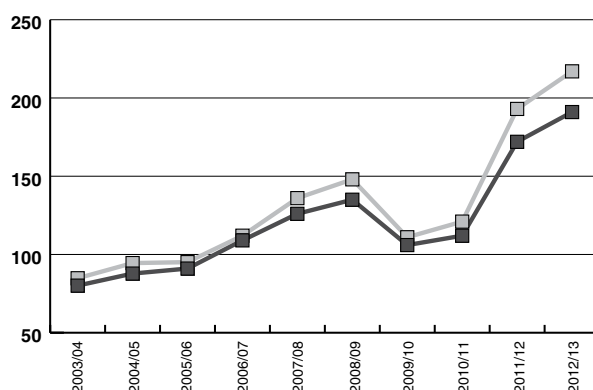
## 2012 Drought Sharply Reduced Hay Supplies



Source: USDA, National Agricultural Statistics Service

Stocks of all U.S. hay stored on farms totaled 76.5 million tons on December 1, 2012, down sharply from a year ago because of the effects of the 2012 U.S. drought. According to the USDA's January 2013 "Feed Outlook," when measured relative to the demand for hay, by converting livestock inventories into roughage consuming animal units (RCAU), 2012 hay stocks were the lowest since 1984. The drought-reduced 2012 commercial hay harvest, coupled with diminished availability of forage on pasturelands, led to the draw-down of on farm hay stocks. The decline in hay supplies is partially compensated by record production of silage, as growers facing poor grain yields chose to convert their corn and sorghum crops to silage.

## Hay & Alfalfa Prices Continue to Escalate



Source: USDA, National Agricultural Statistics Service

Along with the rising price of corn feed, livestock producers are also confronted with the double whammy of rapidly escalating hay and alfalfa prices during the last decade. Since the 2003-04 crop year, all hay prices have risen to \$192 per ton in January 2013 from less than \$81 a decade ago. During that same 10-year span, the per-ton price of alfalfa rose to \$217 from \$87 in 2003-04. Compared to January 2012, the price of alfalfa was up 12.4%.

## Livestock, Dairy & Poultry Prices Projected to Rise in 2013

| Animal Products (\$/cwt) | 2009  | 2010  | 2011   | 2012   | 2013F  | % Change 2012-13 |
|--------------------------|-------|-------|--------|--------|--------|------------------|
| Cattle                   | 83.25 | 95.38 | 114.73 | 122.86 | 129.50 | 5.4%             |
| Hogs                     | 41.24 | 55.06 | 66.11  | 60.88  | 63.00  | 3.5%             |
| Broilers                 | 77.60 | 82.90 | 79.90  | 86.60  | 95.00  | 9.7%             |
| Milk                     | 12.83 | 16.26 | 20.14  | 18.51  | 19.25  | 4.0%             |

## Commodity Prices Fall from Record Levels in 2013

| Crops (\$/bu.)     | 2009 | 2010  | 2011  | 2012  | 2013F | % Change 2012-13 |
|--------------------|------|-------|-------|-------|-------|------------------|
| Wheat              | 4.87 | 5.70  | 7.24  | 7.90  | 7.00  | -11.4%           |
| Corn               | 3.55 | 5.18  | 6.22  | 7.20  | 4.80  | -33.3%           |
| Soybeans           | 9.59 | 11.30 | 12.50 | 14.30 | 10.50 | -26.6%           |
| Cotton (cents/lb.) | 62.9 | 81.5  | 88.3  | 71.0  | 73.0  | +2.8%            |

Source: USDA-NASS & Office of Chief Economist, February 2013