From the editors of *Farm Equipment...*

# Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

August 15, 2013
Vol. 19, Issue 8

- AGCO 2Q Sales +13%
- CNH 2Q Sales +9%
- DE Profits +26%

## Borrowing for Rising Production Costs Could Limit Farmers' Equipment Spending

If 2013 farm production costs rise at the rates seen last year, U.S. farmers will need to take on more debt, which could curb spending on farm equipment in 2014. The Federal Reserve Bank of Kansas City reported in its July *Agricultural Finance Databook* newsletter that rising production costs prompted some agricultural producers to take on more debt.

Federal Reserve economists Nathan Kauffman and Maria Akers, said in the newsletter, "Rising production costs and larger loans for unspecified purposes pushed agricultural loan volumes higher in the second quarter. Survey results indicated the total volume of non-real estate farm loans made during the quarter rose 5.8% from last year."

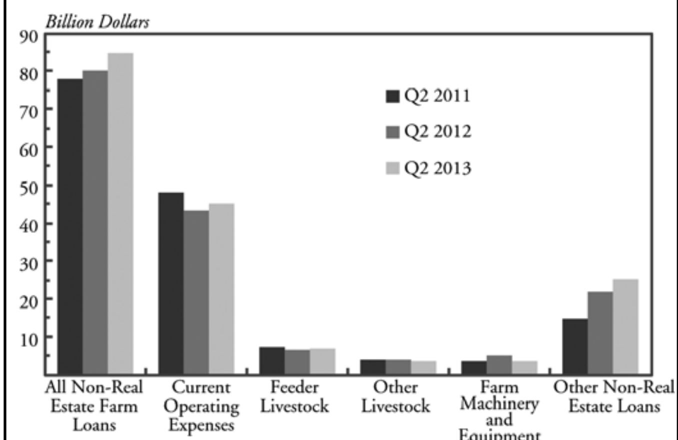
**Rising Costs.** According to the USDA's *Farm Production Expenditures 2012 Summary* released earlier this month (the latest data available), total production expenditures were up 10.4% compared with 2011. Overall, expenditures were estimated at $351.8 billion in 2012, up from $318.7 billion in the previous year.

Crop farmers were hit the hardest by rising production costs as they saw a 17.4% increase to $199.8 billion. Livestock farms expenditures increased to $152 billion, up 2.4%. Anecdotal data indicates that the trend toward higher input costs and production expenditures has carried over to 2013.

USDA reports in it most recent release that all expenditure items, except for interest on borrowing, increased between 2011 and 2012. The four largest expenditures at the national level totaled $161.8 billion and accounted for 46% of total expenditures in 2012. These include feed, 16.8%; farm services, 11.3%; livestock, poultry and related expenses, 9.1%;

*Continued on page 2*

**Non-Real Estate Farm Loan Volumes by Purpose**




**Following a year-end spike in capital spending, the volume of loans for farm machinery and equipment declined by almost a third in the second quarter from last year.**

*Source: Agricultural Finance Databook, Table A. 3.*

## Kubota Plans 200 HP Tractor, But Stymied in Efforts to Expand Ag Product Line

Japanese tractor maker, Kubota, told European editors recently it has its sights set on producing its own 200 horsepower tractor, probably by 2016. Currently, the company's tractor range only extends to 135 horsepower. The company gave no hint how it's doing in its quest to expand its ag equipment line and become a full-line manufacturer of farm machinery, but industry observers are speculating about a couple of possible acquisition targets.

According to reports in two British publications, these new high horsepower units are likely to be lightweight four-cylinder tractors with semi-powershift and CVT transmission options. They're almost certainly going to be fitted with an SCR system using diesel exhaust fluid to control emissions.

James Andrews of the British trade publication, *Farmers Weekly,* reported that it looks as though Kubota will develop the tractors in-house, rather than adding to the line-up by buying out another maker. However, it didn't rule out another acquisition to extend its product line, especially over 200 horsepower.

"The higher-horsepower tractors are likely to be built in Japan initially, but the maker did say it was looking

*Continued on page 3*

and labor, 8.8%.

Expenditures for tractors and self-propelled farm machinery increased to $16.6 billion in 2012 from $12.5 billion in 2011, an increase of nearly 33%. This represented 4.7% of the total. Other farm machinery accounted for 2.2% of all production expenditures combined, rising from $6.4 billion in 2011 to $7.8 billion last year, an increase of nearly 22%.

Regionally, the largest increase in production expenditures was in the Plains, where expenditures rose by $15 billion from 2011. In 2012, total expenditures by region were:

- Midwest ....................$ 112 billion
- Plains .........................$88.8 billion
- West ..........................$69.9 billion
- Atlantic ......................$42.6 billion
- South .........................$38.6 billion

Per farm, the average expenditures in 2012 totaled $162,743 compared with $146,653 in 2011, up 11% year-over-year.

**Farm Production Expenditures — 2011 vs. 2012**

*(millions dollars)*

| Expenditure | 2011 | % of Total | 2012 | % of Total | % Change |
|---|---|---|---|---|---|
| Livestock, poultry, related expenses | 28,600 | 9.0 | 32,000 | 9.1 | 11.9 |
| Feed | 54,600 | 17.1 | 59,100 | 16.8 | 8.2 |
| Farm service | 37,100 | 11.6 | 39,900 | 11.3 | 7.5 |
| Rent | 26,300 | 8.3 | 29,100 | 8.3 | 10.6 |
| Agricultural chemicals | 11,800 | 3.7 | 13,700 | 3.9 | 16.1 |
| Fertilizer, lime, soil conditioners | 25,100 | 7.9 | 28,500 | 8.1 | 13.5 |
| Interest | 9,800 | 3.1 | 8,300 | 2.4 | (15.3) |
| Taxes | 11,300 | 3.5 | 11,500 | 3.3 | 1.8 |
| Labor | 26,800 | 8.4 | 30,800 | 8.8 | 14.9 |
| Fuel | 15,300 | 4.8 | 15,500 | 4.4 | 1.3 |
| Farm supplies & repairs | 16,300 | 5.1 | 17,900 | 5.1 | 9.8 |
| Farm improvements & construction | 14,300 | 4.5 | 15,400 | 4.4 | 7.7 |
| Tractors & self-propelled farm machinery | 12,500 | 3.9 | 16,600 | 4.7 | 32.8 |
| Other farm machinery | 6,400 | 2.0 | 7,800 | 2.2 | 21.9 |
| Seeds & plants | 17,800 | 5.6 | 20,300 | 5.8 | 14.0 |
| Trucks & autos | 4,370 | 1.4 | 5,000 | 1.4 | 14.4 |
| Misc. capital expenses | 280 | 0.1 | 520 | 0.1 | 46.2 |
| **Total farm production expenses** | **318,650** | **100.0** | **351,820** | **100.0** | **10.4** |

**Second Quarter Borrowing.** In their July report, Kauffman and Akers cite recent survey data shows that total non-real estate farm loan volumes continued to trend higher during the April to June period of 2013. Farmers' increased need for short-term financing tended to offset a decline in loans for farm machinery and equipment during the second quarter.

"Commercial banks financed increased operating expenses and other non-real estate loans for unspecified purposes," they said. "As farm spending ramped up to pay high input costs for seed, fertilizer and feed, loan volumes for farm machinery and equipment fell sharply.

Looking ahead, an anticipated drop in crop prices closer to harvest could further strain farm profit margins, potentially boosting the need for short-term loans and curtailing farm capital spending at year-end."

According to the data compiled by Kauffman and Akers, loans to fund current operating expenses exceeded year-ago levels by 5.3% as input costs trended up.

Following a year-end spike in capital spending, the volume of loans for farm machinery and equipment declined by almost a third in the second quarter from last year. Agricultural lenders also extended a substantial amount of intermediate-term credit for other, general purposes, adding to farm sector debt obligations.

**Big Bank Trend.** The authors also noted the market share of agricultural loans shifted more toward large commercial banks in the second quarter continuing a trend established during the first 3 months of the year. "According to national survey data from the second week of May, the share of non-real estate loans originated by large banks relative to their smaller counterparts jumped to the highest level in nearly 20 years," Kauffman and Akers said.

The shift to borrowing from larger lenders could be due, in part, to attractive and flexible loan terms. Typically, larger banks offered more floating interest rate loans at lower rates than small and midsized lenders, suggesting larger banks may be better able to accommodate the borrowing needs of large producers expanding their operations."

During the first quarter of the year, the authors noted that the average effective interest rate offered by large banks on non-real estate loans was 3.6%, much lower than the average 5.4% effective interest rate at small and midsized banks. AEI

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to build tractors closer to their final destination. So it's possible we could see a European factory at some point," Andrews said in a published report.

Along with plans to build larger tractors, Kubota said it would start branding some of its Kverneland products, which it acquired in 2012, in Kubota colors. According to Andrews, "Initially this will be a limited number of machines for specific markets and they'll only be ones that are suited to Kubota's tractor range."

It would also appear the Japanese equipment maker plans to develop combines for harvesting grains like corn, soybeans and wheat.

Kubota has been making combines, primarily for harvesting rice, since 1969. James Rickard of *Farmers Guardian*, reported that Kubota has plans for "entry level combines to be sold in Europe for only £60,000 ($95,000). It currently makes small rice harvesters, which it says it can adapt and scale up to harvest cereals. It could be a very tempting machine for small farms wanting to take harvesting control."

**Who to Buy?** With its desire to extend its tractor range beyond 200 horsepower, it would appear Kubota's acquisition opportunities are limited. Peter Hill, a regular contributor to *Ag Equipment Intelligence*, says that Italian manufacturer "ARGO could possibly be a candidate in as much as it's a family owned business that might be prepared to sell for the right money; but whether they'd deliver what Kubota wants is another matter."

ARGO produces McCormick and Landini brand tractors to 230 horsepower. "The transmissions used in current high horsepower models — McCormick X70 and Landini 7 Series — are now owned by the Chinese tractor maker YTO who bought the St. Dizier transmissions factory in France after ARGO liquidated it. The X70/7 Series will soon be replaced by the new X generation tractors using ZF transmissions," according to the source.

Hill added, "ARGO has a good range of 35-120 horsepower tractors that are built pretty much all in-house, but then Kubota already has that power sector covered to a large extent, albeit with a much more limited product range."

He said this situation also applies to the other privately-owned candidate Same Deutz-Fahr Group.

"I get the impression that Kubota has drawn a blank on its acquisition proposal — for tractors in this horsepower sector, at least." **AEI**



**FARM MACHINERY TICKER (AS OF 08/13/13)**

| Manufacturers | Symbol | 08/13/13 Price | 07/10/13 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|---|---|---|---|---|---|---|---|---|
| Ag Growth Int'l. | AFN | $37.49 | $36.16 | $38.57 | $27.80 | 30.48 | 25,987 | 469.79M |
| AGCO | AGCO | $57.66 | $53.14 | $58.54 | $41.17 | 10.77 | 917,956 | 5.61B |
| AgJunction Inc. | AJX | $1.03 | $0.96 | $1.09 | $0.56 | N/A | 30,041 | N/A |
| Alamo | ALG | $45.23 | $43.06 | $47.61 | $28.59 | 17.39 | 19,295 | 547.68M |
| Art's Way Mfg. | ARTW | $7.00 | $7.57 | $8.44 | $5.23 | 9.86 | 8,038 | 28.29M |
| Blount Int'l | BLT | $11.96 | $12.01 | $17.49 | $10.52 | 15.33 | 276,317 | 591.18M |
| Buhler Ind. | BUI | $6.10 | $6.20 | $7.25 | $5.20 | 7.82 | 2,356 | 150.31M |
| Caterpillar | CAT | $86.57 | $84.96 | $99.70 | $79.49 | 13.65 | 6,205,040 | 56.06B |
| CNH Global | CNH | $47.61 | $43.17 | $49.99 | $38.19 | 8.78 | 297,141 | 11.62B |
| Deere & Co. | DE | $83.91 | $82.87 | $95.60 | $73.14 | 10.33 | 3,441,350 | 32.56B |
| Kubota* | KUBTY | $76.73 | $78.52 | $88.38 | $46.78 | 82.68 | 101,439 | 96.37B |
| Lindsay | LNN | $75.16 | $77.89 | $94.90 | $64.46 | 14.07 | 161,223 | 966.63M |
| Raven Industries | RAVN | $30.91 | $31.28 | $35.68 | $23.01 | 23.78 | 94,895 | 1.12B |
| Titan Int'l | TWI | $17.35 | $17.10 | $27.12 | $15.77 | 16.04 | 985,378 | 928.90M |
| Trimble Navigation | TRMB | $26.73 | $27.77 | $32.03 | $22.54 | 36.32 | 1,677,360 | 6.86B |
| Valmont Industries | VMI | $140.18 | $149.22 | $164.93 | $125.00 | 13.01 | 221,236 | 3.75B |
| **Retailers** | | | | | | | | |
| Cervus Equipment | CVL | $19.90 | $19.85 | $21.39 | $17.25 | 12.44 | 13,519 | 296.85M |
| Rocky Mountain Equipment | RME | $11.81 | $13.57 | $14.88 | $10.40 | 9.02 | 37,232 | 226.92M |
| Titan Machinery | TITN | $17.70 | $20.26 | $32.00 | $17.04 | 10.91 | 435,955 | 369.12M |
| Tractor Supply | TSCO | $121.93 | $112.17 | $124.45 | $82.39 | 29.29 | 458,498 | 8.51B |

**Kubota delisted its shares from the New York Stock Exchange, but it remains listed on the Tokyo Stock Exchange.*

## Strong Revenues, Margins in Deere's F3Q, But F4Q to Decline

Deere & Co.'s third-quarter 2013 results easily surpassed analysts' expectations as the world's largest ag equipment maker posted a 26% increase in income on a 4% gain in net sales and revenues. The company also raised its full-year income forecast to $3.45 billion, up from its previous outlook of $3.3 billion.

At the same time, Deere said it expects a weaker fourth quarter in this fiscal year.

The company's net income came in at $996.5 million for the period vs. $788 million for the same period of 2012. For the first 9 months of the year, net income was $2.73 billion compared with $2.38 billion last year. Worldwide net sales and revenues increased 4%, to $10 billion, for the third quarter and rose 8% to $28.35 billion for 9 months. Net sales of the equipment operations were $9.32 billion for the quarter and $26.37 billion for 9 months, compared with $8.93 billion and $24.45 billion for the same periods last year.

Net sales of the worldwide equipment operations increased 4% for the quarter and 8% for 9 months compared with the same periods a year ago. Equipment net sales in the U.S. and Canada rose 4% for the quarter and 9% year to date. Outside the U.S. and Canada, net sales increased 5% for the quarter and 6% for 9 months.

**Deere & Co. — Selected 3 & 6 Months 2013 Information**
*(in thousands $)*

| | 3 Months Ended 7/31 2013 | 3 Months Ended 7/31 2012 | Change | 6 Months Ended 7/31 2013 | 6 Months Ended 7/31 2012 | Change |
|---|---|---|---|---|---|---|
| Net Sales & Revenues | | | | | | |
| Ag & Turf equip. | $7,847 | $7,271 | 8% | $22,029 | $19,720 | 12% |
| Const. & Forestry equip. | 1,469 | 1,659 | –11% | 4,344 | 4,724 | –8% |
| **Total net sales** | **9,316** | **8,930** | **4%** | **26,373** | **24,454** | **8%** |
| Financial services | 587 | 565 | 4% | 1,650 | 1,602 | 3% |
| Other revenues | 107 | 95 | 13% | 322 | 309 | 4% |
| Total net sales & revenues | $10,010 | $9,590 | 4% | $28,345 | $26,365 | 8% |
| Net income | $997 | $788 | 26% | $2,730 | $2,377 | 15% |

Company equipment sales are projected to be up about 5% for fiscal 2013 and to decrease by about 5% for the fourth quarter compared with the year-ago periods.

Ag and turf sales increased 8% for the quarter and 12% for 9 months largely due to higher shipment volumes and price realization. Operating profit was $1.34 billion for the quarter and $3.68 billion year to date, compared with $1.01 billion and $2.99 billion, respectively, last year.

**4Q Revised Lower.** "Despite higher net income guidance, Deere didn't change Ag/Turf revenue guidance — +7% year-over-year — and forecasts –5% year-over-year in its fiscal fourth quarter," said Steve Fisher, analyst for UBS Investment Research, in a note to investors.

"Deere's fiscal third quarter was solid, driven by better than expected ag results. Ag margins were very strong, and Deere raised its South American ag forecast. However, it expects a 5% decline — partly due to fiscal year 2012 production timing — the guidance raise is only reflective of the fiscal third-quarter beat, cash receipts are expected to decline 2.5% in fiscal 2014 (crops –4%), and the construction outlook for this year is reduced," Fisher said.

"The unchanged revised forecast may also suggest a pull forward into third quarter. Our main concern is the cash receipt forecast, which suggests that volumes could decline in fiscal 2014." AEI

## 'Softer Sales' Results from Rocky Mountain's Push to Reduce Inventories

Rocky Mountain Dealerships' posted revenue gains of 5.5% in the second quarter as the dealership group made a concerted effort to reduce its equipment inventories. "Despite softer sales during the quarter, we achieved a $28 million sequential decrease in our inventory levels. This remains an area of focus for Rocky going forward, and we expect this trend to continue throughout the balance of the year," says Matt Campbell, CEO of Rocky, Case IH's largest dealership group in western Canada.

Rocky's revenues increased to $238.1 million for the second quarter vs. $225.7 million in the same period of 2012. Gross profit improved to $35.9 million from $34.2 million last year. Net income was up significantly to nearly $4.5 million from $1.6 million in the second period of the previous year.

**Rocky Mountain Dealerships — Selected 3 & 6 Months 2013 Information** *(in thousands C$)*

| | 3 Months Ended 6/30 2013 | 3 Months Ended 6/30 2012 | Change | 6 Months Ended 6/30 2013 | 6 Months Ended 6/30 2012 | Change |
|---|---|---|---|---|---|---|
| Sales | | | | | | |
| New Units | $131,534 | $131,155 | 0% | $246,609 | $243,587 | 1% |
| Used Units | 71,805 | 63,110 | 14% | 143,110 | 121,114 | 18% |
| Parts | 26,667 | 23,067 | 16% | 39,966 | 36,907 | 8% |
| Service | 7,300 | 7,421 | –1% | 13,521 | 14,061 | –4% |
| Other | 790 | 988 | –20% | 1,406 | 2,123 | –34% |
| **Total Sales** | **238,106** | **225,741** | **5%** | **444,612** | **417,792** | **6%** |
| Gross profit | 35,940 | 34,226 | 5% | 68,431 | 61,946 | 10% |
| Net profit | 4,494 | 1,595 | 182% | 7,332 | 3,754 | 95% |

*Continued on page 5*

"Sales of new units marked the biggest surprise in Rocky's results. They were flat year-over-year and well below our forecast," said Ben Cherniavsky, analyst for Raymond James, in a note to investors.

According to Cherniavsky, in addition to weather factors, which contributed to lower than expected sales levels, the introduction of higher cost Tier 4 compliant machinery also caused some farmers to shift purchases away from new to used equipment.

"Despite healthy aftermarket revenues which effected a favorable sales mix, gross margins fell 90 basis points below forecast and were flat year-over-year. We believe the margin compression reflected, at least in part, Rocky's choice to address its elevated inventory levels, which have been a problem both for the company and also the industry at large," Cherniavsky said.

"Rocky was the only dealer in our universe to lower its inventories meaningfully in the second quarter — inventories declined $28 million to $536 million — which speaks to some of the risks that we still see in the sector.

"Looking ahead, the preference for less expensive Tier 3 equipment is expected to persist given the reported modest pre-order intake. While ag fundamentals remain generally positive — commodity prices are at profitable levels for farmers and the growing season looks promising." AEI

# Following Big 2Q, AGCO & CNH Raise Outlook

**AGCO Regional Sales — 3 & 6 Months 2013**

| | 3 Months Ended 6/30 | | | 6 Months Ended 6/30 | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| North America | $788.9 | $733.4 | 7.6% | $1,413.1 | $1,299.9 | 8.7% |
| South America | 540.0 | 448.5 | 20.4% | 1,005.7 | 863.9 | 16.4% |
| Eur./Africa/ Middle East | 1,599.0 | 1,406.9 | 13.7% | 2,792.2 | 2,606.7 | 7.1% |
| Asia/Pacific | 120.3 | 101.3 | 18.8% | 240.3 | 193.3 | 24.3% |
| Total | $3,048.2 | $2,690.1 | 13.3% | $5,451.3 | $4,963.8 | 9.8% |

**CNH Regional Sales — 3 & 6 Months 2013**

| | 3 Months Ended 6/30 | | | 6 Months Ended 6/30 | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| North America | $2,334 | $2,166 | 8% | $4,415 | $4,267 | 4% |
| South America | 929 | 629 | 55% | 1,800 | 1,301 | 49% |
| Eur./Afr./Mid-East/CIS | 1,785 | 1,779 | — | 3,197 | 3,231 | (2%) |
| Asia/Pacific | 430 | 452 | (4%) | 763 | 866 | (11%) |
| Total | $5,478 | $5,026 | 10% | $10,175 | $9,665 | 7% |

Not only did CNH and AGCO see significant gains in revenues and net income during the second quarter ended June 30, 2013, but both farm equipment makers also saw healthy increases in margins that bolstered the companies' forecasts for the remainder of the year and into 2014.

**AGCO Revenues Up.** AGCO reported that its revenues increased 13% year-over-year to $3.05 billion. North American region sales increased 8% year-over-year to $789 million in the quarter. The company's profit rose 4.3% from the same period last year to $213.7 million. Sales in South America went up 20% year-over-year to $540 million. EAME (Europe, Africa and Middle East) region sales were $1,599 million, up 14% from the year-ago quarter.

Overall, AGCO posted an operating margin of 10.7% during the quarter vs. 9.8% in the same period of 2012. The company reported an operating margin of 15.4% for its North American business.

In a conference call with analysts, Martin Richenhagen, AGCO's chairman and CEO, said, "Order books are pretty strong and I'm pretty optimistic that next year will be a good year. 2014 looks pretty stable to me." The company now expects sales of $10.8 billion to $11 billion, up from its sales forecast in April of $10.5 billion to $10.7 billion.

Steven Fisher, analyst with UBS Investment Research, sees headwinds ahead and believes North American demand for new farm machinery may be peaking.

In a report to investors he said, "We see increased risk to 2014 North American demand, as substantially lower commodity prices — corn down 41% year-over-year and down 32% year-to-date — are likely to impact farm cash receipts and appetite for equipment demand in 2014."

**CNH +33%.** CNH, the world's second largest producer of farm machinery, posted a 33% increase in second-quarter profit to $471 million. Its operating margin improved to 12% from 10.4% for the same period last year, as sales climbed 9% to nearly $5.5 billion. It saw a 13% increase in ag equipment sales, but construction equipment sales fell by 6%.

CNH expects revenue this year to increase by 5% over 2012's $19.4 billion and anticipates an operating margin of 8.5-9%.

In a note, Fisher said CNH indicated it had produced 7% above retail demand ahead of third-quarter downtime that played a key role in CNH's strong performance during the period.

"We don't expect to forecast a significant decline in net farming income on a global scale because if you look at what's going on in Brazil, what's going on in Europe and North America, I don't think there's a profitability crunch for our clients," said Richard Tobin, CNH's CEO, in a conference call with analysts. AEI

## Revenues Rise as Zetor Upgrades Tractor Line

New and improved products and Zetor's particular brand of "upmarket economy" specifications are helping the Czech manufacturer post some upbeat results.

Consolidated group revenues gained close to 24% in 2012 over the year prior at the equivalent of $226 million, while profitability improved almost 140% at $14.6 million.

That positive trend continued in the first half of this year with revenues increasing by 2.2% and pre-tax profit showing a 47% year-over-year improvement.

Marián Lipovský, deputy CEO and production director at Zetor Tractors, warns that the negative market situation prevailing in Europe currently means the second half of the year may not be as favorable.

"Be it the floods that have affected a number of farmers, the long winter or the decline in subsidies for the Czech agricultural sector by about $50 million due to cost-cutting within the European Union, all these can be factors that will impact the sale of tractors," he says.

Nonetheless, managers anticipate a positive financial result for the whole of 2013, forecasting a moderate growth in revenues and a profit equivalent to just over $15 million.

New tractors at both ends of the Zetor range have made a contribution: the improved-spec Forterra HSX has added appeal with engines using diesel particulate filtration to meet Tier 4i emissions rules and mechanical fuel injection expected to be 2.9-liters/hour more frugal than previous models.

It also appears that the new entry-level 80 horsepower Major is going over well with farmers wanting a basic tractor. Production plans for the year have been raised from an early schedule of 800 units to more than 1,000, and three variants down to 50 horsepower are being added to extend the line.

Zetor's long-running project to build a 6-cylinder tractor for the up to 200 horsepower sector is still in development, however. Speaking at the opening of Zetor Gallery, a new visitor center at the factory in Brno, Lipovský, conceded the Maxterra is now unlikely to be launched before 2015. AEI

## $10.5M Investment Allows Claas to Expand Baler Production

Commissioning a new paint system to improve finish quality and durability at a cost equivalent to $10.5 million is the latest phase of a 6-year investment program in Claas hay baler production. The installation at the Claas Metz factory in northeastern France is part of $39.5 million spent on new facilities and reorganization of the assembly process to increase capacity and add flexibility.

"We now have a higher capacity and more flexible production facility that allows us to assemble balers in a mixed model process rather than in a batch process," says Hervé Bauduin, managing director of Claas France's Usine factory.

"This means we can respond quite late to order changes and cancellations, and still deliver the right baler with the required options."

With a product range comprising seven fixed chamber Rollant round balers and baler-wrappers, four adjustable-size Variant round balers, and half a dozen Quadrant big square balers — all with numerous options — flexible production is an important facility for the manufacturer.

Batch building requires an early commitment to specific models; mixed assembly makes it easier to respond to fluctuations in demand for different models from year to year.

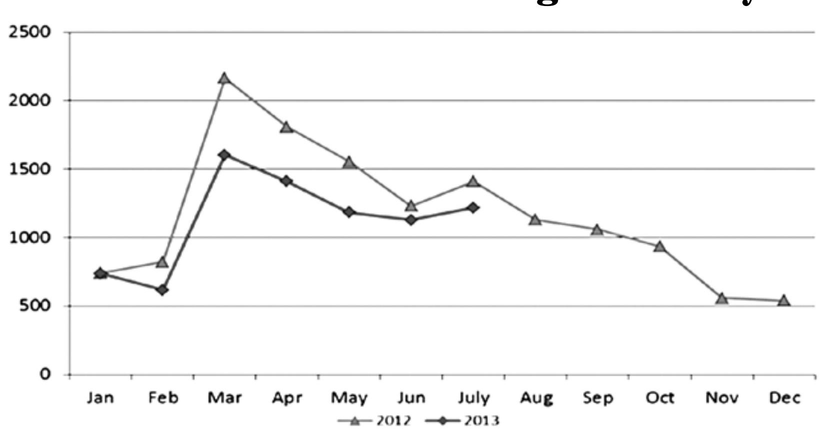
Since production started in 1961 at what was the first Claas factory outside Germany, the Metz plant has produced almost 300,000 balers, including 120,000 machines for round bales.

"I calculate that these machines by now could have produced 2-4 billion bales," says Bauduin. "That's enough to stretch more than three and a half million miles — 150 times around the world and 16 times to the moon."

Typical production currently is 3,500-4,000 units a year, but the new facilities have raised single-shift capacity to 5,000 units annually. Rollant and Variant round balers are now built on a shared assembly line; the Quadrant machines remain a dedicated line alongside.

Although the Markant conventional hay baler is now built in South Korea, the Metz plant still manufactures the classic knotter mechanism, from which the billhook became part of the Claas trademark until the late 1970s. AEI

## U.K. Tractor Sales Fall Again in July




**Agricultural Engineers Assn. reports that farm tractor sales in the UK reached 1,217 units in July. This is down 13.7% compared with July 2012. Year-to-date, UK tractor sales are down by 18.9% to 7,894 units.** AEI

# Ag Equipment Sales Growth Decelerates

North American large ag equipment retail sales growth decelerated in July, with row-crop tractor sales up 15.3% year-over-year (+27.5% last month), 4WD tractor sales down 10.7% (+8.4% last month) and combine sales up 10% (+18.1% last month), according to data released by the Assn. of Equipment Manufacturers. Mid-range tractor sales increased 15.2%, while compact tractor sales increased 24.2%. Inventory levels continue to rise, though generally supported by continued unit sales growth, says Mircea (Mig) Dobre, analysts with RW Baird in a note to investors.

- North American large tractor and combine retail sales increased 11% year-over-year in July, decelerating from the 23% increase in June. U.S. sales increased 6% year-over-year; Canadian sales increased 36%.
- Combine retail sales continued to grow, posting a 10% increase in June vs. the same period last year, following an 18.1% increase in June. U.S. combine inventories were 19.9% higher year-over-year in absolute terms in June (vs. up 22.2% last month). July is typically been an above average month for combine sales, accounting for 12.3% of annual sales over the last 5 years.
- Row-crop tractor sales also continue to grow, posting a 15.3% year-over-year increase, decelerating from the 27.5% increase observed in June. U.S. row-crop tractor inventories increased 42.1% year-over-year in June vs. a 49.1% increase in May. July has been a slightly below average month for row-crop tractor sales over the last 5 years, typically accounting for 7.2% of annual sales.
- 4WD tractor sales decreased 10.7% year-over-year in July, reversing the 8.4% increase in June. U.S. dealer inventories of 4WD tractors increased 20.9% in June vs. the same period last year.
- Mid-range tractor sales increased in July by 15.2% year-over-year after a 4.3% increase last month. Compact tractor sales increased 24.2% year-over-year, up from the 7.1% increase last month. AEI

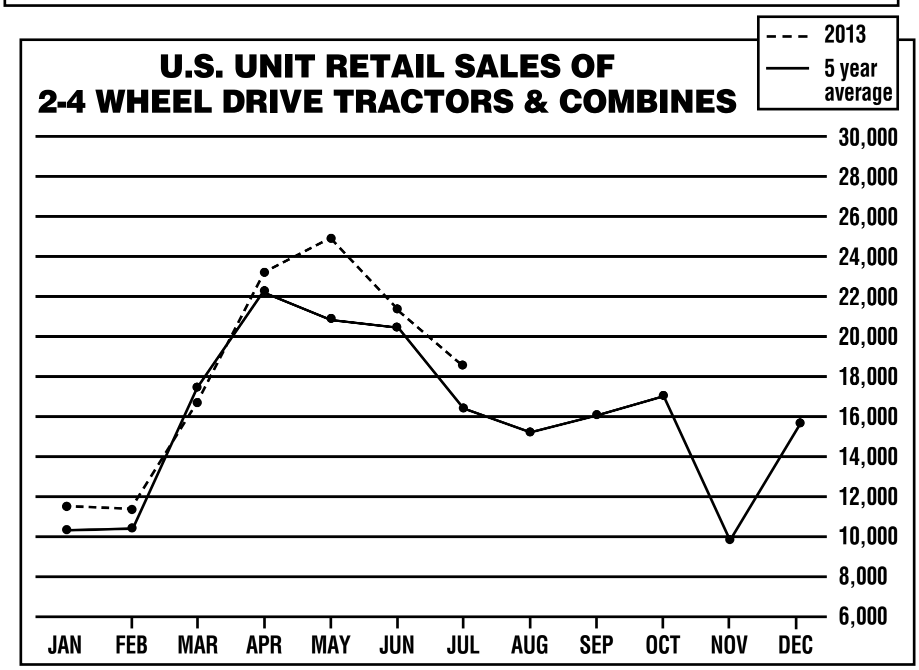
## JULY U.S. UNIT RETAIL SALES

| Equipment | July 2013 | July 2012 | Percent Change | YTD 2013 | YTD 2012 | Percent Change | July 2013 Field Inventory |
|---|---|---|---|---|---|---|---|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 9,322 | 7,547 | 23.5 | 65,026 | 57,715 | 12.7 | 54,373 |
| 40-100 HP | 5,001 | 4,737 | 14.4 | 33,092 | 31,207 | 6.0 | 25,727 |
| 100 HP Plus | 2,732 | 2,420 | 12.9 | 20,174 | 15,998 | 26.1 | 10,626 |
| Total-2WD | 17,055 | 14,340 | 18.9 | 118,292 | 104,920 | 12.7 | 90,626 |
| Total-4WD | 411 | 500 | -17.8 | 3,576 | 3,296 | 8.5 | 1,550 |
| Total Tractors | 17,466 | 14,840 | 17.7 | 121,868 | 108,216 | 12.6 | 92,176 |
| SP Combines | 1,056 | 1,034 | 2.1 | 5,645 | 4,162 | 35.6 | 2,007 |

## JULY CANADIAN UNIT RETAIL SALES

| Equipment | July 2013 | July 2012 | Percent Change | YTD 2013 | YTD 2012 | Percent Change | July 2013 Field Inventory |
|---|---|---|---|---|---|---|---|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 1,403 | 1,085 | 29.3 | 8,319 | 7,191 | 15.7 | 7,824 |
| 40-100 HP | 562 | 457 | 23.0 | 3,418 | 3,467 | -1.4 | 3,544 |
| 100 HP Plus | 445 | 335 | 32.8 | 3,091 | 2,650 | 16.6 | 2,704 |
| Total-2WD | 2,410 | 1,877 | 28.4 | 14,828 | 13,308 | 11.4 | 14,072 |
| Total-4WD | 81 | 51 | 58.8 | 913 | 837 | 9.1 | 608 |
| Total Tractors | 2,491 | 1,928 | 29.2 | 15,741 | 14,145 | 11.3 | 14,680 |
| SP Combines | 424 | 311 | 36.3 | 1,430 | 1,140 | 25.4 | 1,242 |

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




*—Assn. of Equipment Manufacturers*

# Is Domestic Irrigation Growth Reaching its Peak?

The number of new irrigation systems popping up on land that previously was not irrigated suggests use of the equipment is on the rise, but analysts question whether or not irrigation equipment sales have reached their peak.

Irrigation permits in South Dakota have skyrocketed, according to a recent report by the Associated Press. According to the article, the state department of Environment and Natural Resources approved 279 irrigation permits so far this year and still has 121 applications pending. Last year the department approved 173 and in the previous three years, there were 65 or fewer permits granted.

Historically, South Dakota hasn't been one of the major irrigated states. According to the USDA's 2008 Farm and Ranch Irrigation Survey (latest data available), South Dakota was ranked 27 in terms of irrigated acreage. While there is no central database that records the number of permits on a national level, the 2008 survey shows the number of acres of irrigated farmland is growing. U.S. farmers and ranchers irrigated 54.9 million acres of farmland in 2008, an increase of 2.4 million acres or 4.6% from 2003, according to the survey.

Bob von Bernuth, education director for the Irrigation Assn., has witnessed a growth in center-pivot systems. "Within 20 miles of my home in Virginia there are about 10 new center pivots.

According to von Bernuth, the reason for the growth is two-fold. "First, we are seeing the effects of global warming. While it is hard to quantify long-term trends in the average temperature or rainfall, the variability of rainfall year to year is well quantified," he says. "More simply said, the variation in rainfall at a given location has risen significantly in the past 20 years over the previous 20 years. Irrigation is viewed as insurance, so with irrigation, the decrease in crop yield in a low rainfall year is avoided with irrigation.

Chris Striby, Senniger Irrigation's domestic sales manager, says in addition to the drought and high commodity prices the Environmental Quality Incentives Program (EQUIP) has provided incentives for growers to think about adding and/or improving irrigation systems.

**Future Demand.** Can the current demand for irrigation equipment sustain itself? Von Bernuth says as long as commodity prices are high, we'll continue to see irrigation on the rise. "However, commodity prices alone don't tell the whole story. One needs to look at net return, not just gross return. If the price of the entity which increases yield goes up faster than the commodity price, you will see a slowdown," he explains. "Most center pivot manufacturers are very busy right now. The differential (commodity price above equipment cost) won't continue forever, but it certainly looks good for right now."

Rich Panowicz, vice president of North American sales for Valley Irrigation, says we'll continue to see growers investing in irrigation machines in areas that traditionally are not irrigated — mainly states east of the Mississippi River. "A lot of these growers now are trying to manage their risk and one thing they can't control is rain. The timing of rainfall is so critical," he says.

It's unclear at this point where demand will be in 2014. "Irrigation equipment manufacturers like Lindsay and Valmont keep saying it's too early to get a read on where demand is headed next year at least until this year's harvest comes in," says C. Schon Williams, analyst with BB&T, in a note.

"Domestic irrigation sales growth has been boosted in recent quarters by drought last year," Williams says. "In fact, Lindsay characterized last quarter as more like a 'typical' tail of the peak selling season, which suggests to us the domestic irrigation market could be peaking." AEI

# Huge Jump in Ag Sales Pushes Cervus' Profits Up by 17.3%

Farm equipment sales in western Canada remained robust through the second-quarter as one of John Deere's largest retailers of ag machinery in the region, Cervus Equipment Corp., posted record revenues for the period. "During the second quarter, corporate sales initiatives and positive customer outlook contributed to a 48% increase in agricultural equipment sales and record overall quarterly revenue," said Graham Drake, president and CEO of Cervus.

For the quarter, Cervus reported that revenue increased by $58.1 million, or 29.6%, to $254.8 million for the quarter ended June 30, 2013, from $196.7 million in 2012. Profit also increased by $1.3 million, or 17.3%, to $8.7 million for the quarter from $7.4 million in 2012.

In a note, Ben Cherniavsky, analyst for Raymond James, commented, "The highlight of second-quarter results was a 30% increase in new equipment sales, which nearly tripled our forecast. Parts and service activity was also strong, rising about 25% year-over-year, ahead of our 10% forecast.

"Although Cervus' sales growth for second half of 2013 is expected to decelerate from its lofty second-quarter levels, the near-term outlook for the company is generally favorable." AEI

**Cervus Equipment Corp. — Selected 3 & 6 Months 2013**
*(in thousands C$)*

| | 3 Months Ended 6/30 | | | 6 Months Ended 6/30 | | |
|---|---|---|---|---|---|---|
| | 2013 | 2012 | Change | 2013 | 2012 | Change |
| Revenues | $254,798 | $196,654 | 29.6% | $403,730 | $306,436 | 31.8% |
| Gross profit | 45,456 | 37,610 | 20.9% | 73,978 | 60,666 | 16.4% |
| Gross margin | 17.8% | 19.1% | –6.7% | 18.3% | 19.8% | –7.5% |
| Net profit | 8,723 | 7,438 | 17.3% | 9,223 | 8,834 | 4.4% |