From the editors of *Farm Equipment...*

Ag Equipment Intelligence

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News, Information & Analysis for the Ag Equipment Marketer

- Ag Sales Slowing
- Dealers See Flat 2014
- Ethanol's Impact

Kubota Set to Make Major Investments in Kverneland Facilities

Kverneland Group, one of Europe's largest farm machinery manufacturers, has begun a major program of factory improvements and upgrades having secured approval for a major investment plan from new owner Kubota Corp. of Japan.

Speaking to *Ag Equipment Intelligence* (*AEI*) Europe correspondent at a launch event in Germany, Kverneland Group CEO Ingvald Løyning said funds totalling more than $135 million could be spent at the group's major competence centers over the next 3 years to improve production efficiency and increase capacity for manufacturing hay tools, tillage and crop care products.

"We had the biggest challenge wanting to make these investments when the funds were not available," says Løyning. "But Kubota has the financial strength and a long-term strategy for growth, which has given us the opportunity to invest."

The expenditure on factory upgrades, which comes on top of a significant R&D budget that will accelerate new product development, is part of a plan to double Kverneland Group's sales revenues over the next 5 years to the equivalent of $1.3 billion.

Another important component of the strategy is to start selling Kverneland products through Kubota Tractor Corp. in the U.S. Details are to be announced this fall.

"We have a good selection of small implements from mowers to fertilizer spreaders that are suited to the type of tractors made by Kubota and the utility and 'sun downer' markets where they are popular," says Løyning. "Because of Kubota's position in these sectors, with more than 1,000 dealers in the United States, I wouldn't be surprised if this business doesn't come to represent 10% of our turnover."

For now, 80-85% of revenues are generated in the 27 countries of the European Union. Kverneland closed its U.S. sales and distribution business 3 years ago and turned to independent distributors in selected areas for Kverneland tillage and Vicon hay tool products: Cummings & Bricker in Batavia, N.Y., and Carlisle, Pa.; ACI Distributors, St Charles, Mo.; and Ellis Equipment, Logan, Utah for Vicon equipment.

In addition to these outlets,

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CNH Industrial Fixes Dividend Target at 25-35% of Net Income

During its pitch to potential investors September 26-30, executives of the newly formed CNH Industrial said the long-term focus of the merged CNH Global and Fiat Industrial group is "Stable, value maximizing capital structure with shareholder friendly distribution policy."

The company said its top priority is to "achieve an investment grade rating, with potential to substantially reduce interest expense." It also said its potential target dividend policy is for 25-35% of the group's net income, with a minimum payout target of €150 million (approx. $203 million), under normal circumstances.

CNH Industrial Segment Overview — 2012

	Agricultural Equipment	Trucks/ Commercial Vehicles	Construction Equipment	Powertrain
Revenues[1]	€12.2Bn/ $16.5Bn	€8.7Bn/ $11.8Bn	€2.9Bn/ $3.9Bn	€2.9Bn/ $3.9Bn
Trading Profit[1]	€1.3Bn[2]/ $1.8Bn	€503Mn/ $681Mn	(€30Mn[2])/ ($41Mn)	€141Mn/ $191Mn
Trading Margin	10.6%	5.8%	(1.0%)	4.8%
Global Market Position	#2	#2[3]	#6	N/A

Source: Company report [1] Excluding financial services and before inter-company eliminations; [2] Ag Equipment and Construction Equipment results translated from US GAAP to IFRS; [3] By global units shipped, including unconsolidated joint ventures; 4 Source: management estimates. Excludes cranes and Chinese manufacturers; 5 Ranking based on global players (excluding domestic producers in China)

In its presentation, the company also revealed its major competitors as well as information that painted an interesting picture of the company's operations. Overall, in 2012 industrial revenues, with $33.4 billion, CNH Industrial trails only Caterpillar ($66.4 billion), Volvo ($46 billion) and Deere & Co. ($35.3 billion).

2013 Outlook. When it released its second quarter 2013 earnings

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Kverneland supplies New Holland Agriculture in the U.S., Canada and Mexico with selected hay tools — mostly large triple mowers and grass rakes. The agreement was secured shortly before Kubota made its 2012 acquisition bid.

Løyning emphasizes that the products supplied to New Holland are significantly bigger and more sophisticated than the limited range of smaller products to be supplied through Kubota Tractor Corp.

Kverneland Group is no stranger to OEM business, in Europe, as a wide range of hay tools are supplied to Same Deutz-Fahr for selected markets and it handles sales and distribution of Massey Ferguson and Fendt-branded round balers to AGCO dealers in a handful of countries.

Contract manufacturing and assembly is another strand. Kverneland produces two models of air seeder for John Deere at the Soest seed drill plant in Germany, where a new paint facility has been opened to improve finish quality and clear a production bottleneck. There is also a bigger R&D center there.

These major projects were signed off before the Kubota acquisition (*AEI*, March 2012), but money is now available to provide more modern buildings and facilities for component manufacture and assembly at Soest; in total around $27 million will have been spent at the plant.

> ***"An important component of the strategy is to sell Kverneland products through Kubota Tractor in the U.S. …"***

In Norway, where Kverneland Group is headquartered, the Klepp factory will get more than $40 million to increase capacity from between 4,500 and 5,000 mouldboard plows to 7,000 annually.

The hay mowers factory in Denmark and baler plant in Italy are also destined to get large sums for improvements as Kverneland and Kubota managers prepare the way for future growth.

"Unlike our previous investor who was looking for short-term returns, Kubota sees Kverneland Group's potential for growth and profitability in the long-term," says Løyning. "We will be looking to exploit Kubota's tremendously strong position in Asia but also working to increase our business in Russia and other Central European states, as well as aiming to improve our share of established markets.

"The management approach at Kubota is very analytical and we've had to be very clear and detailed in making our business case for investment," he adds. "Now we have approval from the board, the Kubota management is committed to driving forward with a program that will see Kverneland Group growing to a new scale." AEI

Despite Production Disruptions, ARGO Posts Solid Results

Despite challenging market conditions and the trauma of an earthquake in 2012, the manufacturer of Landini, McCormick and Valpadana tractors continued to improve its profitability through increased efficiencies.

ARGO Tractors SpA and its subsidiaries recorded a 19% improvement in net operating result equivalent to $13.2 million at today's exchange rate, from $11 million in 2011, on revenues of $627 million — a level similar to the preceding year of $635 million.

"Despite weakness in markets where ARGO Tractors always performed particularly well, we are able to report a positive business trend and satisfactory operating results," says Valerio Morra, chairman of the ARGO Group. "In May 2012, we faced disruption when an earthquake struck the area in which ARGO Tractors operates. It halted production for a time but the dedication shown by our employees ensured that we overcame the negative effects of this event."

ARGO Tractors operates 4 factories in northern Italy, manufacturing components and assembling tractors from 35-230 horsepower. It has distribution companies in a number of important export territories, including Europe, South Africa and the Americas. Its U.S. operation, McCormick USA, is located in Duluth, Ga.

Despite the contrasting performance of different markets in 2012, sales volumes enabled ARGO Tractors to maintain its global share and achieve 83% of sales revenues from exports from Italy.

Group turnover was especially encouraging given a global slump in demand for specialized fruit, orchard and vineyard tractors — a product category for which ARGO Tractors is a leading supplier with its Landini Rex and Valpadana range.

Financial performance indicators show that ARGO Tractors continued to benefit from measures initiated in 2011 to reduce operating costs and working capital. EBITDA improved by 8% to $57 million last year, while EBIT improved 12% to $39.2 million.

"Another investment plan is now underway to maximize efficiency in every manufacturing process," says Morra. "At the same time, we remain committed to the substantial investment plan that will deliver a totally renewed product range by the end of 2015." AEI

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Prices of Midwest Farmland Beginning to Slow

It looks as if the escalating prices for farmland are finally taking a breather, according to Murray Wise Assoc., a land auction firm headquartered in Champaign, Ill.

"Over the past few months, we've seen prices in many areas begin to flatten, especially compared to the dramatic rises we've seen for 3 years," the company reports. "Over a 12-month period, the numbers are still impressive.

The Chicago Fed's *Agricultural Newsletter* reports 1-year increases in the value of "good" farmland, for the 12-months ending July 1:

Illinois +17%
Indiana +21%
Iowa +18%
Michigan +18%
Wisconsin, +7%

But, for example, last September, high quality Iowa cropland stood at $11,661 per acre. In March, it was $11,437. Medium quality cropland did a little better, but it still fell almost 1%, from $8,780 to $8,694 per acre. AEI

Joskin to Produce Ag Equipment in U.S.

A Belgian manufacturer of heavy-duty farm trailers, manure spreaders, slurry tankers and light pasture equipment is weighing its options for manufacturing its products in the U.S.

Joskin celebrates 45 years in business this year, along with impressive growth that has seen revenues rise over the past 12 years from the equivalent of $39 million at today's exchange rates to almost $140 million.

The company forecasts sales approaching $170 million in 2013, partly as a result of acquiring French trailer and spreader manufacturer LeBoulch toward the end of last year. Joskin's first acquisition should add more than $11.5 million to revenues.

It will also provide increased manufacturing capacity by utilizing LeBoulch's existing facilities more fully, but the green light has been given to the construction of a new 6,000 square meter production plant costing almost $4 million that will supplement the Joskin factories in Belgium, France and Poland.

Production in North America could be next, either in the form of a joint venture or by acquiring a manufacturing operation, says export manager Christophe Bultot. The company is already active in Canada through its dealer Koolmees Equipment Inc. in Norwich, Ontario, and in the U.S. by Double M Trailer, Amarillo, Texas. AEI

FARM MACHINERY TICKER (AS OF 10/10/13)

Manufacturers	Symbol	10/10/13 Price	09/12/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$39.67	$37.29	$40.48	$27.80	39.67	20,914	497.90M
AGCO	AGCO	$61.63	$59.21	$62.31	$42.48	11.51	985,497	6.00B
AgJunction Inc.	AJX	$1.03	$1.05	$1.09	$0.56	N/A	40,500	N/A
Alamo	ALG	$46.00	$46.38	$49.45	$29.66	17.68	27,489	556.88M
Art's Way Mfg.	ARTW	$6.92	$7.00	$8.44	$5.23	9.75	4,992	27.96M
Blount Int'l	BLT	$11.97	$12.09	$17.49	$10.52	15.35	244,889	591.68M
Buhler Ind.	BUI	$6.65	$6.94	$7.25	$5.20	7.92	2,033	163.86M
Caterpillar	CAT	$84.73	$86.84	$99.70	$79.49	13.36	5,641,570	54.87B
CNH Global	CNHI	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Deere & Co.	DE	$82.92	$83.29	$95.60	$79.50	9.52	3,248,690	31.75B
Kubota	KUBTY	$74.55	$73.62	$88.38	$49.66	16.07	58,780	18.73B
Lindsay	LNN	$75.35	$80.06	$94.90	$66.98	14.10	134,972	969.08M
Raven Industries	RAVN	$31.09	$32.39	$35.68	$23.01	25.69	77,369	1.13B
Titan Int'l	TWI	$15.15	$15.81	$27.12	$14.14	14.00	866,917	811.12M
Trimble Navigation	TRMB	$29.94	$28.24	$32.03	$22.58	40.68	1,492,650	7.69B
Valmont Industries	VMI	$133.18	$140.47	$164.93	$125.00	12.36	260,171	3.57B
Retailers								
Cervus Equipment	CVL	$20.43	$19.60	$21.39	$17.25	12.16	10,332	304.75M
Rocky Mountain Equipment	RME	$11.42	$11.47	$14.88	$10.43	7.82	35,300	219.97M
Titan Machinery	TITN	$16.25	$17.04	$32.00	$15.75	10.42	375,891	339.32M
Tractor Supply*	TSCO	$65.83	$130.72	$69.25	$41.20	31.63	825,252	9.19B

** In September, Tractor Supply had a 2-for-1 stock split of its common shares.*

How Will Slowing Ethanol Demand Impact Ag Equipment Sales?

There's little debate that the rising production and price of corn has helped stoke the increased sales of farm equipment during the past decade. For example, analysts have demonstrated a strong positive correlation between the price of corn and the valuation of Deere & Co.'s stock prices. This has also been the case for pretty much all manufacturers of ag machinery since the mid-2000s.

There's also little argument that much of corn's momentum during this period has been the result of the rapid rise in the use of corn for ethanol production. But concerns have emerged recently about the declining demand for ethanol and its impact on farm equipment sales moving forward.

In an in-depth look at the ag equipment market, Adam Fleck, analyst for Morningstar, explores the concern that the demand for U.S. corn has permanently leveled off for a variety of reasons, including a stagnant use of the crop as a feedstock in the production of ethanol.

Rapid Growth Slowing. Tracing the usage of corn from the early 1990s, Fleck points out that from 1992 through 2002, domestic corn usage grew at a 1.5% compound annual growth rate; this metric ticked up to a 3.2% yearly rate over the next 10 years. "However, the vast majority of this growth stemmed from the onset of corn-based ethanol production in 2003-04; we calculate underlying demand excluding this source grew at a 0.7% annual growth rate from 1992 to 2002 but actually ticked down to 0.5% each year from 2003 to 2013."

But, Fleck says the momentum that ethanol provided for corn usage could be slowing.

"Ethanol production is also set to provide more limited demand growth for corn. The Energy Information Administration estimates that roughly 99% of corn-based ethanol consumption stems from E10 — ethanol blended into gasoline at a 10% rate. Although the Environmental Protection Agency has approved the use of E15, car manufacturers are reluctant to support engine warranties with such fuel blending, given the potential that the input could cause undue wear and tear," says Fleck. "Similarly, E85 — a replacement fuel for traditional gasoline — has not enjoyed rapid adoption because of concerns about fuel economy and limited distribution infrastructure.

"Without a substantial shift in policy among producers and automotive original equipment manufacturers, it seems unlikely that ethanol demand growth over the next 10 years will match that of the past decade."

Changing Direction? Recently, opposition to increasing the use of ethanol has grown stiffer from several sides, including oil producers and small engine makers. Fleck says, the push-back could go even further as some in government and the oil industry are calling for a full repeal of the act. He adds that the EPA recently said it has flexibility to adjust Renewable Fuels Standard-mandated minimums.

"While we don't expect such a drastic move in our base case, the lack of government-required ethanol blending would most likely materially drive down corn-based biofuel production," Fleck says. "We'd expect some ethanol production to remain in this case, given the fuel's use as an oxygenator (as a replacement for MTBE) in gasoline, but this minimum level is likely to be well below current production rates."

In its latest baseline 10-year forecast, USDA pegs ethanol use — including dried distillers grains — at about 5.4 billion bushels of corn, compared with 4.7 billion estimated for 2012-13. "The resulting CAGR is just 1.5%, well below the 17% annual rate in the prior decade, suggesting future corn demand growth will be much closer to underlying food and livestock feed usage."

Fleck also points out that beyond ethanol, the changing pattern of crop exports will also play a significant role in future U.S. corn demand. "Expanded acreage in Brazil and Argentina has probably permanently shifted the worldwide landscape," he says, noting the rapid rise of both corn and soybean production in South America.

Longer Term Outlook. While Fleck notes that these and other dynamics will continue to impact the farm equipment business, he doesn't find a near-term downturn particularly concerning.

He says, "While we remain concerned about the resulting farm equipment sales environment, we don't believe the potential headwinds will damp Deere's narrow economic moat rating or AGCO's positive moat trend. We believe the long-term potential for farm equipment manufacturers remains positive, given climbing farming marginal costs (boosting minimum crop prices compared with historical levels) and emerging-market mechanization advancements." **AEI**

Small Tractor Sales Pick Up, Showing Momentum

The recent pick up in sales of compact and utility tractors looks like it may have the kind of legs it hasn't seen in several years.

According the October 10 report from the Assn. of Equipment Manufacturers, mid-range (40-100 horsepower) tractor sales increased in May (6%), June (4.3%), July (15.2%), August (11.5%) and September (7.5%).

Compact tractor (<40 horsepower) sales have also demonstrated momentum with year-over-year increases. Sales of compact tractors have also seen ongoing strength, rising in May (27%), June (7.1%), July (24.2%), August (13.9%) and September (6.6%).

Dealers expect these recent trends to carry over into the new selling season, according to the results of *Ag Equipment Intelligence's* "2014 Dealer Business Outlook & Trends" survey.

Overall, 31% of North American dealers expect unit sales of compact tractors to increase by at least 2% to more than 8% during 2014. Only about 7% of dealers are projecting decreased sales of compact tractors next year.

Dealers also expect sales of mid-range, or utility tractors, to increase in 2014. Nearly one-third (32.3%) of dealers in the U.S. and Canada are forecasting sales gains for utility tractors during the coming year. Less than 14% anticipate declining sales of mid-range tractors for the year. **AEI**

Survey Shows Most Dealers See 2014 Sales Flat or Down Slightly

U.S. farm equipment dealers are expecting 2014 retail sales of ag machinery to come in at about the same level as 2013 or slightly lower, according to UBS Equity Research's most recent dealer survey. More than half of the 160 responding dealers believe USDA's forecast for a 10% drop in 2013 net cash income will be a headwind to increasing equipment sales in 2014.

In a note to investors, Steven Fisher, analyst for UBS, said, "USDA updated its 2013 farm income forecast on August 27 now expects a 10.1% decline in net cash income in 2013, driven by a 5.5% decline in crop cash receipts. Most dealers see USDA's 2013 cash net income forecast as a negative for 2014 demand, with 50% view it having a 'minor negative impact.'"

Flat to Lower Outlook. Slightly more dealers expect sales to increase than decline from 2013 levels, according to Fisher. "While slightly more dealers expect sales to increase than decline, the weighted response indicates dealers on average expect sales to decline — 14% expect sales to decline more than 5%, compared to 7% who expect sales in increase more than 5%."

On a weighted basis, the national average response was 4.86, putting it below "5," which would indicate "flat" or "same as last year."

Broken out by equipment brand, those dealers selling New Holland branded equipment were the most optimistic, and their sister brand, Case IH dealers as the least optimistic, according to UBS survey results.

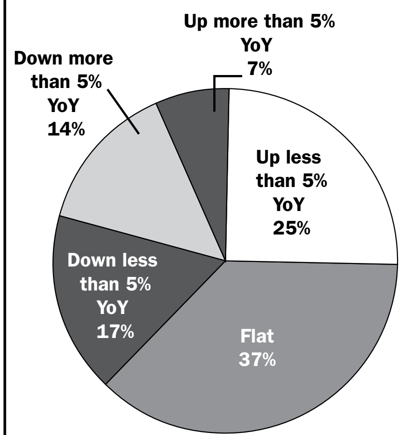
Net Income Headwinds. At present, USDA is expecting an 11% decline in its 2013 net cash income outlook compared with the year prior.

In the UBS survey, 6% of dealers indicated the net cash income dropoff would have a "major negative" impact on their 2014 outlook for ag equipment sales, while 50% said it would have a "minor negative" impact.

On the flip side, only 1% of dealers said declining net cash income was a "major positive" impact and 10% believe it's a "minor positive" for growing sales in 2014.

Overall, 56% of dealers in the UBS survey see declining net cash income as a negative and only 11% see it as a positive. The remaining 33% believe it will have "no impact" on machinery sales in 2014. AEI

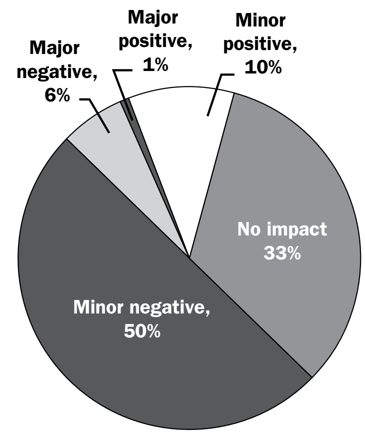
Dealers' Expectations for Equipment Sales in 2014 vs. 2013



Source: UBS Agricultural Dealer Survey #32

Nearly the same number of dealers see sales rising (32%) as see sales declining (31%) in 2014.

2013 Cash Net Income Headwind for 2014 Demand?



Source: UBS Agricultural Dealer Survey #32

More than half of dealers believe lower cash net income in 2013 will affect equipment sales in 2014.

Dealers' Expectations for Equipment Sales — 2014 vs. 2013

	Down More Than 5%	Down Less Than 5%	Flat	Up Less Than 5%	Up More Than 5%
AGCO	11%	18%	43%	25%	4%
Case IH	20%	25%	34%	14%	7%
John Deere	15%	18%	38%	26%	3%
New Holland	9%	12%	35%	32%	12%
Total	13%	18%	37%	25%	7%

Source: UBS Agricultural Dealer Survey #32

LNN's Soft Domestic Sales Disappoints

While improving year-over-year revenues by 16.1%, Lindsay Corp.'s weak domestic sales of irrigation systems appears to setting the tone for continuing soft business levels going into its new fiscal year.

Despite increasing revenues to $148.4 million from $127.8 million a year earlier, Lindsay fell short of analysts' expectations. In a note, C. Schon Williams, analyst for BB&T Capital, said, "LNN posted fiscal fourth quarter 2013 EPS of $0.81 vs. our $0.96 and the street's $0.91.

"The miss was driven by disappointing sales growth and softer than expected margins. Management tone around irrigation was downbeat and they now expect 2014 domestic irrigation sales to be down amid softer commodity prices and challenging year-over-year comps."

With its disappointing earnings, Williams said estimates for the coming year move down in fiscal 2014 estimates on lower volume expectations. "We assume irrigation revenues can begin to grow again in fiscal 2015 on international demand and replacement demand in the U.S., but this is speculative at best given our place in the ag cycle."

Regarding Lindsay's possible interest in Deere's Water operations, Williams said, "Based on management conversations we no longer view Lindsay as a viable candidate to acquire Deere's drip irrigation products." AEI

Same Deutz-Fahr Group Changes Strategy for New Engines

Further evidence of a change in engine policy at the Same Deutz-Fahr Group comes with the unveiling of a new in-house engine family comprising 2.9-5.8-liter 3-, 4- and 6-cylinder diesels.

SDF originally turned to specialist diesel engine maker Deutz to avoid investment in emissions compliance beyond Euro Stage 1 while continuing to manufacture its 1-liter per cylinder 4- and 6-cylinder engines in India for markets without the more demanding emissions rules adopted in western Europe, the U.S. and Japan.

Under former CEO Massimo Bordi, SDF acquired a 45% strategic shareholding in Deutz and introduced its engines into a wider range of tractors. Last year, current CEO Lodovico Bussolati cashed in a second portion of shares worth $174 million at current exchange rates to reduce the holding to just 8%.

SDF has now unveiled the new Farmotion range of engines, comprising a 3-cylinder rated at up to 100 horsepower, a 4-cylinder rated at up to 140 horsepower, and a 6-cylinder engine with 200 horsepower maximum rating.

With "optimized downsizing" displacement of 962cc per cylinder, high pressure common rail fuel injection, exhaust gas recirculation and a diesel oxidation catalyst (DOC), the engines meet current emissions rules.

For Stage 4/Tier 4 Final compliance, selective catalytic reduction (SCR) will be used.

SDF has not said how it will use the engines, but may displace Deutz units and confine them to the Lamborghini and Hürlimann machines. AEI

How Important are Rollover Programs?

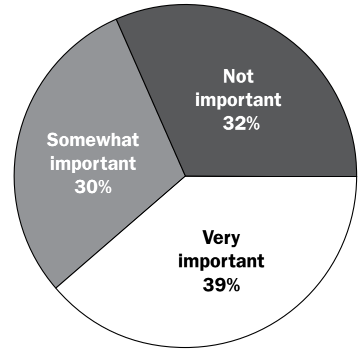
There's little doubt that ag equipment rollover programs have played a significant role in the last decade increasing the sales volume of large farm machinery, particularly combines.

Rollovers are sales programs where dealers accept low hour trade-ins and a small cash payment in exchange for new equipment.

To better gauge the role rollover programs play in supporting replacement demand, in its most recent dealer survey, UBS Investment Research asked, "Do you use equipment rollover programs?" and "How important is it to sales of new equipment?"

What they found was most dealers do not utilize such sales programs, but they are split on their importance. "While a majority (64%) do not use rollover programs to facilitate new equipment sales," says Steven Fisher, analyst for UBS, "dealers overall were nearly evenly split over the importance rollover programs play in new equipment sales." AEI

Dealers' View of Rollover Programs



Source: UBS Agricultural Dealer Survey #32

Kubota & AGCO Dealers Most Optimistic for 2014

When *Ag Equipment Intelligence* surveyed farm equipment dealers a year ago, John Deere dealers, as a group, were the most optimistic with 56.5% expecting sales revenues to increase by 2% or more for 2013. They were followed by New Holland dealers at 48.3% projecting higher revenues and Kubota dealers with 43.8% projecting increased revenues for the year.

On a percentage basis, this year Kubota dealers claimed the top spot for optimism going into 2014. Nearly 62% of Kubota dealers expect to increase sales revenues by at least 2% to more than 8%. Only 18.8% of Kubota dealers are projecting declining revenues for next year.

AGCO dealers aren't far behind in the optimism category with 60% of them forecasting higher revenues during the new selling year. Only 16% of AGCO dealers are projecting a downturn in sales revenues in the year ahead.

Dealers handling New Holland equipment came in third place when it comes to expectations for 2014. Slightly over 40% see higher revenues next year, while 24.1% are calling for a downturn in revenues in the year ahead.

A little over 36% of John Deere dealers are anticipating higher revenues in 2014. The same number indicate they're looking at lower revenues.

They're followed by the independent or shortline dealers. In this group, only 27.5% are calling for revenue growth for the year ahead. But only 10.3% see a revenue falloff for the year. A big majority, or 62% see "little or no change" for next year.

Like last year, the Case IH dealers find themselves at the bottom of the list of dealers when it comes to optimism for the year ahead.

A year ago, less than one-quarter (24.2%) of Case IH dealers were planning on increasing sales revenue, while nearly 38% were looking a declining revenues. This year, slightly more "Big Red" dealers, 26.4% indicate that they're planning for revenue growth, while nearly 38% (37.9%) are anticipating a downturn in revenues during 2014.

On a weighted basis, the ranking changes slightly: AGCO +2.54; Kubota +2.31; New Holland +1.09; Independents +0.65; John Deere 0.0; and Case IH –0.98. AEI

Dealer Projections for New Equipment Sales Revenues by Major Line Carried — 2014

Mainline	Up 8% or More	Up 2-7%	Little or No Change	Down 2-7%	Down 8% or More
AGCO	16.0%	44.0%	24.0%	16.0%	0.0%
Case IH	5.3%	21.1%	31.5%	28.9%	13.2%
John Deere	6.1%	30.3%	27.2%	30.3%	6.1%
Kubota	9.5%	52.4%	23.8%	9.5%	4.8%
New Holland	3.1%	37.5%	40.6%	18.8%	0.0%
Independent	3.4%	24.1%	62.2%	3.4%	6.9%

Ag Equipment Sales Slowdown Continues

North American large ag equipment retail sales declined in September, with 4WD tractor sales down 25.7% year-over-year and combine sales down 26.6%, partially offset by row-crop tractor sales which increased 7.7% (+11.8% last month). Small ag equipment experienced relative strength with mid-range tractor sales up 7.5% vs. the same period last year and compact tractors up 6.6%. Mircea (Mig) Dobre, analyst with RW Baird in a note to investors warned that inventory levels continue to rise, with growing risk given sales declines particularly for combines.

• U.S. and Canada large tractor and combine retail sales decreased 8% year-over-year in September, down from the 1% increase in August and the first year-over-year decline in 16 months. U.S. sales decreased 4% vs. last year; Canadian sales decreased 26%.

• Combine retail sales declined, posting a 26.6% year-over-year decrease in September following a 16% decrease in August. U.S. combine inventories were 6.2% higher year-over-year in absolute terms in August vs. up 13% last month. September is typically the seasonally strongest month for combine sales, accounting for 13.6% of annual sales over the last 5 years.

• Row-crop tractor sales continue to grow, posting a 7.7% year-over-year increase, decelerating from the 11.8% increase observed in August. U.S. row-crop tractor inventories increased 34.3% year-over-year in August vs. a 37.4% increase in July.

• 4WD tractor sales fell, down 25.7% year-over-year in September and reversing from the 0.5% increase in August. "Importantly, comparisons remain difficult for the remainder of the year and into early next year," said Dobre. U.S. dealer inventories of 4WD tractors decreased 0.9% year-over-year in August.

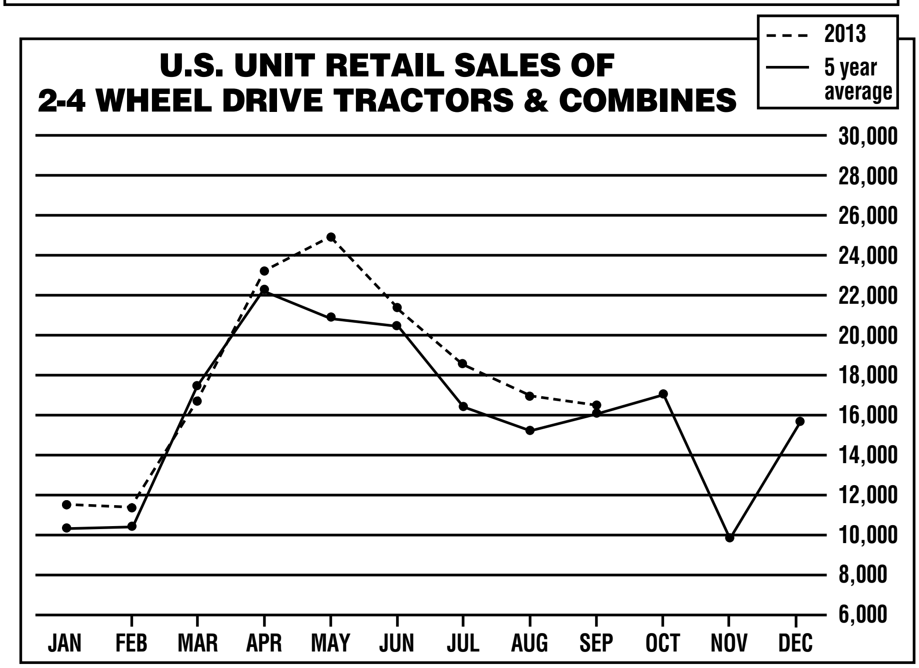
• Mid-range tractor sales increased in September, up 7.5% year-over-year after an 11.5% increase last month. Compact tractor sales increased 6.6% vs. the same period last year, down from the 13.9% increase last month. **AEI**

SEPTEMBER U.S. UNIT RETAIL SALES

Equipment	September 2013	September 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	September 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	7,640	7,048	8.4	80,925	72,018	12.4	52,045
40-100 HP	4,434	4,057	9.3	42,109	39,383	6.9	26,929
100 HP Plus	2,975	2,694	10.4	25,675	20,675	22.8	12,096
Total-2WD	15,049	13,799	9.1	148,709	132,304	12.4	91,070
Total-4WD	528	676	-21.9	4,633	4,493	3.1	1,720
Total Tractors	15,577	14,475	7.6	153,342	136,797	12.1	92,790
SP Combines	1,028	1,350	-23.9	7,696	6,611	16.4	2,223

SEPTEMBER CANADIAN UNIT RETAIL SALES

Equipment	September 2013	September 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	September 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	887	954	-7.0	10,225	9,035	13.2	6,666
40-100 HP	437	474	-7.8	4,252	4,336	-1.9	3,978
100 HP Plus	385	426	-9.6	3,776	3,317	13.8	2,967
Total-2WD	1,709	1,854	-7.8	18,253	16,688	9.4	13,841
Total-4WD	46	97	-52.6	1,013	998	1.5	587
Total Tractors	1,755	1,951	-10.0	19,266	17,686	8.9	14,428
SP Combines	263	410	-35.9	1,914	1,942	-1.4	1,102



—Assn. of Equipment Manufacturers

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Ag Equipment Competitive Landscape

	North America Market Position	Europe Market Position	Latin America Market Position
Tractors	1. John Deere 2. CNH Industrial 3. Kubota	1. CNH Industrial 2. John Deere 3. AGCO	1. AGCO 2. John Deere 3. CNH Industrial
Combines	1. John Deere 2. CNH Industrial 3. AGCO	1. CLAAS 2. CNH Industrial 3. John Deere	1. CNH Industrial 2. John Deere 3. AGCO

Source: Management estimates. Note: Ranked by market share; 2013 YTD as of June

2012 Global Market Position — Ag Equipment

Position	1. John Deere	2. CNH Industrial	3. AGCO
Segment Revenues[1]	€21.2Bn/$28.7Bn	€12.2Bn/$16.5Bn	€7.8Bn/$10.6Bn
Industrial Revenues by Segment	Ag & Turf – 81% Const. & Forestry – 19%	Ag – 45% Trucks/CVs –33% Const. Eq. – 11% Powertrain – 11%	Ag – 100%
Group Revenues by Geography	North America – 62% Europe – 16% Latin America – 11% ROW – 9%	North America – 28% Europe – 40% Latin America – 15% ROW – 17%	North America – 26% EMEA – 51% Latin America – 19% ROW – 4%

Source: Company presentations and regulatory filings. Note: Deere and AGCO converted at exchange rate of 0.778 EUR/USD; [1] Respective segment revenues only

report, CNH Industrial projected increased revenues for the year of 3-4% and a trading margin of 7.5-8.3%. Forecast for its net debt should be in the range of €1.4-1.6 billion ($1.9-2.2 billion).

In the longer term, the company stressed the underlying ag equipment drivers of rapidly growing global population food requirements and the increasing consumption of protein as "structurally positive." It also pointed to increasing industrialization of farm operations, which it said, "supports long term growth for heavy ag equipment manufacturers."

Ag Operations. In terms of major ag equipment competition, in addition to Deere, CNH also lists Kubota, with $15.4 billion in revenues in 2012, and AGCO, with $10.5 billion, among its chief rivals.

As a group, farm equipment was far and away the biggest contributor to revenues and profit in 2012. Last year, ag machinery revenues comprised 45% of the total, followed by trucks and commercial vehicles at 33%. Construction equipment and powertrain revenues each contributed 11% of total revenues in 2012.

Breaking down the $16.5 billion in farm equipment revenues shows that tractor sales accounted for 56% of 2012 ag revenues, hay, forage and specialty equipment contributed 24% and harvesting machinery 20%.

A breakout by regions showed that 40% of CNH Industrial's revenues originated in Europe, 28% from North America, 15% from Latin American and 17% from the rest of the world (ROW).

Distribution & Manufacturing. Across its 12 brands, CNH Industrial boasts 64 manufacturing plants, 49 research and development centers, a workforce of more than 68,000 people and some 6,000 dealers, along with a presence in 190 countries.

In terms of farm and construction equipment dealers for its Case IH, Case Construction, New Holland Agriculture, New Holland Construction and Steyr brands, the group reports 3,328 dealers of ag machinery and 1,194 construction equipment dealer locations.

Analysts' View. Last month, prior to the CNH Industrial presentation, Fredric Stahl, analyst for UBS Investment Research in Italy, downgraded Fiat Industrial largely for the risks associated with CNH's U.S. agricultural exposure and declining truck demand in Brazil.

In a note, Stahl said, "95% of Fiat Industrial's profits in the second quarter came from CNH; we expect it to contribute 80% of next year's profits. Basically all of that comes from CNH's agricultural equipment division. We see declining volumes and lower margins for CNH next year vs. consensus' expectations of 9% higher profits year-over-year. We also expect lower crop prices and lower farm income to impact farmers demand for new equipment next year."

Stahl also noted slackening demand for Iveco trucks in Brazil as a significant headwind for the new CNH Industrial. We believe that truck demand in Brazil will fall sharply from current levels. The truck cycle has disconnected from the wider economy plagued by lower growth, inflation and waning confidence.

"Uncertainty going into the election next year and an increase in real funding costs for truck purchases are possible triggers for a drop in demand," Stahl said.

On October 3, research analysts at TheStreet also downgraded the stock of CNH to a "hold" rating from "buy."

They wrote, "The company's strengths can be seen in multiple areas, such as its revenue growth, impressive record of earnings per share growth and compelling growth in net income.

"However, as a counter to these strengths, we also find weaknesses including generally higher debt management risk, a generally disappointing performance in the stock itself and poor profit margins." **AEI**

CNH Industrial Regional Breakout of Farm & Construction Equipment Dealerships

	North America	Latin America	Western Europe	Rest of World
Agricultural Equipment	1,158	298	945	927
Construction Equipment	318	118	185	573

Source: Company report: