

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

January 15, 2014
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- Strong Year for Buhler
- Claas' Record Results
- Solid Year for Sales

Rural Lifestyle Dealers Optimistic About 2014 Prospects

Equipment dealers who cater to hobby farmers, large property owners and landscapers are banking on the economy continuing to improve to boost sales in 2014. Overall, this group of dealers are generally optimistic going into the new sales year, according to survey results released by *Rural Lifestyle Dealer* magazine.

If 2013 small and mid-size tractor sales are any indication of what can be expected in 2014, these dealers will have some momentum to work with. According to the latest figures from the Assn. of Equipment Manufacturers, through the 12 months of last year, North American unit sales of compact tractors (<40 horsepower) came in at 114,258, surpassing 2012 sales by 9.4%.

Likewise, the sale of mid-size tractors was also up. According to AEM, 63,830 units of tractors in the 40-100

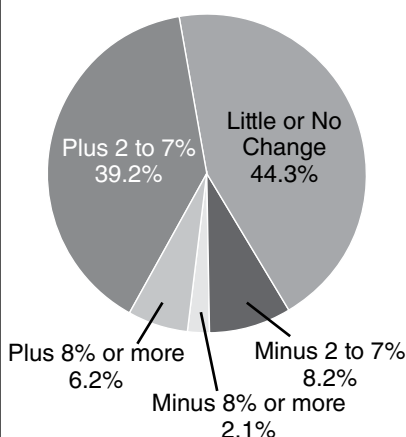
horsepower were sold, up by 4.6% in the January through December timeframe vs. the same 12 month period

of the previous year.

Nearly 60% of dealers polled

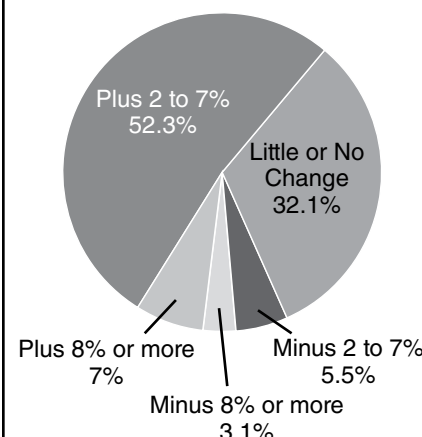
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RL Dealers' Change in Total Revenue 2013 vs. 2012



For 2013 vs. 2012, 45.4% of rural lifestyle dealers expected total revenues to increase by 2% to more than 8%.

RL Dealers' Change in Total Revenue 2014 vs. 2013



Looking ahead to 2014, 59.3% of rural lifestyle dealers expect growth of 2% to more than 8% or more range.

Other Factors That Will Impact 2014 Ag Equipment Sales

In addition to concerns about falling grain prices, several other factors could affect farm equipment sales in 2014 and possibly beyond, according to a recent note from analysts at RW Baird. Among the other issues highlighted in the asset management firm's January 7 "2014 Outlook: An Update on Commodity, Business and Inventory Cycles" report were dealers need to destock equipment inventories, price increases on new farm machinery and the current age of the farm fleet.

On commodity prices, Mircea (Mig) Dobre, machinery analyst for Baird, says, "Given that the commod-

ity inflation cycle appears to have ended in the 2012 timeframe, we believe declines in ag machinery sales could again far outpace the declines in farm receipts in 2014, leading us to estimate a 10%-plus decline in year-over-year North American dealer ag machinery sales for 2014. Our outlook calls for slightly steeper declines than both Deere (down 5-10%) and AGCO (flat to down 5%)."

Destocking Inventories. Pointing to CNH's two largest dealer groups, Titan Machinery and Rocky Mountain Dealership's announcement of plans to improve invento-

ry levels, Dobre says, the overhang in dealers' used equipment levels is causing dealers to manage new equipment inventory levels more closely than in recent years. This, he says, "leads us to believe that new ag equipment inventories at dealers are already too high."

Last month Titan Machinery said it was aiming to decrease inventory levels by about 25% from the end of fiscal year 2014 (ends in January) to the end of fiscal year 2015. This, Dobre believes, will come by reducing new equipment purchases.

Continued on page 2

expect equipment retail sales to rise in the next 12 months. For the new year, 52.3% of dealers forecast increases in revenue of 2-7%, while 7% project increases of 8% or more. This compares with 45.4% who expected sales to increase a year earlier.

A year ago at this time, 39.2% of dealers looked for increases of 2-7% and 6.2% projected a sales improvement of 8% or more.

Only 8.6% of dealers are forecasting a falloff in sales revenues in 2014 vs. 10.3% who anticipated a decline in equipment sales a year ago. Some 5.5% see sales slipping in the next year by 2-7% and 3.1% anticipate sales will fall by 8% or more in the year ahead.

On average, the dealers surveyed reported that 25% of the total annual revenues result from sales to these types of customers.

Growth Drivers. The Top 5 products identified by dealers as those they expect to contribute to improved sales in 2014 include: zero-turn mowers, compact tractors (40 horsepower); rotary cutters; mid-size tractors (40-100 horsepower); and utility vehicles.

According to Lynn Woolf, managing editor of *Rural Lifestyle Dealer*, 65% of dealers who participated in the survey projected the sales of zero turns would increase by 2% to more than 8% in the year ahead. Only 26.5% of dealers forecast this level of growth for zero-turn mowers a year ago.

For the other top products for 2014, about 60% of dealers forecasted solid growth in the 2% to more than

8% range.

Solid Aftermarket. In addition to strong retail sales, this group of dealers also anticipates solid prospect for aftermarket sales in the coming year. Just under 60% of dealers expect 2014 aftermarket sales to grow 2-7% (47.2%) or by more than 8% (12.8%).

A year ago, 47.2% of dealers expected aftermarket revenues to increase by 2-7%, while another 12.6% projected growth of 8% or more. At 59.8% of the total dealers, this came in roughly the same number as a year ago.

Market Drivers. Historic economic cycles indicate that the market for ride-on mowers, compact and mid-size tractors, and other categories of equipment used by hobby farmers and large property owners to maintain their acreage is closely correlated with the economy in general and housing market in particular. According to National Assn. of Home Builders, builder confidence is holding up fairly well.

David Crowe, the group's chief economist said, "The fact that builder confidence remains above 50 [in the Housing Market Index] is an encouraging sign, considering that unresolved debt and federal budget issues cause builders and consumers to remain on the sideline."

Indications are that consumer credit, which also drives this market, is loosening up as well. This combined with attractive financing from equipment manufacturers is also influencing consumers to purchase ride-on mow-

ers and other larger products.

According to the *Rural Lifestyle Dealer* survey, which was conducted in December, 60% of dealers say customers seek financing from them on more than half of their purchases.

The full "2014 Dealers Business Trends & Outlook" report appears in the Winter edition of *Rural Lifestyle Dealer*. **AEI**

Other Factors That Will Impact 2014 Ag Equipment Sales...Continued from page 1

"Unless Titan is also projecting a ~25% decline in ag equipment sales in fiscal year 2015, which we believe is unlikely, Titan is essentially implying it intends to destock inventory through fiscal year '15," says Dobre. "In the case of Rocky, management has noted that it intends to increase inventory turns going forward, which would require orders to CNH to be below end-market demand levels."

Equipment Price Hikes. Another factor highlighted in the Baird report that will impact farm equipment sales in the year ahead is the scheduled price increases announced by the major equipment makers. The report indicates that Deere intends to increase pricing by 6-7% on Tier 4 Final products in 2014 while CNH looks to offset costs by increasing prices 2-3% annually over a 3 year period. "On top of price increases related to Tier 4 Final, both Deere and AGCO are looking to capture an additional ~2% in pricing," says the Baird analyst.

Whereas the price increases associated with earlier Tier 4 engines offered fuel efficiency benefits, the Tier 4 Final equipment will produce "little in benefits to farmers," says Dobre. So, in essence, despite being more expensive, the newest engines developed to meeting EPA emission standards for off-road diesel powered equipment will produce no notice-

Continued on page 3

Top 5 Categories with Most Potential for 2014	2014 Weighted Average	2013 Weighted Average
1. Zero-turn mowers	2.89%	2.57%
2. Tractors under 40 horsepower	2.41%	2.38%
3. Rotary cutters	2.23%	1.92%
4. Tractors 40-100 horsepower	2.26%	1.30%
5. Utility vehicles	2.07%	1.68%

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able customer advantages.

"We generally view the increase in pricing associated with Tier 4 Final equipment to be a difficult pill to swallow, therefore negatively impacting purchasing decisions," Dobre says.

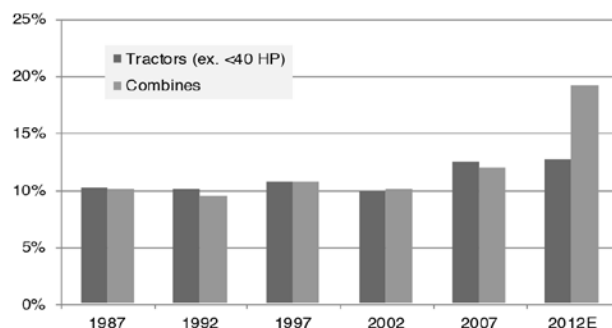
A Young Fleet. In addition, another factor that could add to slower ag machinery sales in the year ahead is that much of the equipment is relatively young. With the increased sales of farm equipment, particularly in the past 5 years, "the average ag equipment fleet age appears to be the youngest in the past 25-plus years," says the Baird analyst. "Based on our estimates, as well as USDA and AEM data, the percentage of combines aged 5 years or less has increased to 19% in 2012 from 12% in 2007, while tractors, excluding those less than 40 horsepower, has increased to 13% from 12%."

At the same time, Dobre estimates that far more high horsepower and 4WD tractors are less than 5 year old, considering unit sales of these tractors increased by 34% since 2008. For the same period, sales of mid-size tractors (40-100 horsepower) were down by 24%.

This, of course, could create opportunities for increasing mid-size tractor sales. With livestock receipts forecast to outpace crop receipts in 2014, this would appear to be a favorable signal for possible growth of tractors in this category that are generally used by livestock operators.

Other Factors. The Baird report cites several other

Ag Equipment — Percentage <5 Years Old



With the increased sales of farm equipment in the past 5 years, the average ag equipment fleet age appears to be the youngest in the past 25-plus years.

Source: USDA, AEM, Baird Estimates

implications that could meaningfully impact equipment sales in the year ahead, including used equipment levels, the expiration of Bonus Depreciation incentives and changes to the ethanol mandate.

In concluding his analysis of the 2014 ag equipment market, Dobre says, "For Titan Machinery, and ag dealers in general, we note significant gross margin risk as capturing new equipment pricing is likely to be challenging and the weakness in the used equipment market is likely to persist. A shift in acreage mix toward more soybeans could also have negative implications for parts and service sales."

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FARM MACHINERY TICKER (AS OF 1/10/14)

Manufacturers	Symbol	1/10/14 Price	12/11/13 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	\$44.67	\$39.95	\$45.21	\$30.11	29.98	83,647	561.9M
AGCO	AGCO	\$56.93	\$59.05	\$64.60	\$47.29	10.05	1,220,560	5.54B
AgJunction Inc.	AJX	\$1.14	\$1.09	\$1.20	\$0.70	N/A	56,489	N/A
Alamo	ALG	\$56.04	\$54.07	\$61.27	\$33.76	19.84	27,343	676.96M
Art's Way Mfg.	ARTW	\$6.11	\$5.91	\$8.44	\$5.40	12.86	8,532	24.7M
Blount Int'l	BLT	\$13.45	\$14.03	\$17.49	\$10.52	18.94	207,510	663.85M
Buhler Ind.	BUI	\$7.10	\$7.00	\$7.30	\$5.30	8.87	7,568	177.5M
Caterpillar	CAT	\$90.51	\$85.28	\$99.70	\$79.49	17.25	5,084,750	57.59B
CNH Global	CNHI	\$11.40	\$10.49	\$13.16	\$10.23	14.18	800,771	20.79B
Deere & Co.	DE	\$89.76	\$87.28	\$95.60	\$79.50	9.87	3,186,220	33.43B
Kubota	KUBTY	\$82.12	\$82.12	\$88.38	\$55.15	75.11	19,864	105.46B
Lindsay	LNN	\$82.81	\$77.10	\$94.90	\$71.13	16.21	254,149	1.07B
Raven Industries	RAVN	\$38.00	\$38.34	\$42.99	\$25.46	30.28	105,863	1.38B
Titan Int'l	TWI	\$17.18	\$17.03	\$27.12	\$14.14	20.19	850,097	919.99M
Trimble Navigation	TRMB	\$33.63	\$31.74	\$35.01	\$24.66	45.69	1,407,690	8.67B
Valmont Industries	VMI	\$153.03	\$139.65	\$164.93	\$129.00	14.25	276,035	4.09B
Retailers								
Cervus Equipment	CVL	\$23.30	\$22.95	\$24.49	\$18.50	14.04	11,055	347.57M
Rocky Mountain Equipment	RME	\$12.90	\$12.21	\$14.88	\$10.98	9.77	45,892	248.62M
Titan Machinery	TITN	\$17.13	\$14.62	\$32.00	\$14.19	14.78	349,719	358.02M
Tractor Supply	TSCO	\$76.58	\$71.45	\$78.17	\$45.28	34.95	973,671	10.69B

Claas Celebrates 100th Anniversary and Record Results

Harvest machinery specialist Claas not only celebrated its 100th anniversary in 2013, it also posted another record set of financial results. Group sales were up 11% on the prior financial year ended September 30, hitting the equivalent of almost \$5.2 billion at current exchange rates. Gross profit increased almost 7.6% to \$1.32 billion.

Revenue figures show slightly lower numbers than for the prior year, but only because Claas sold its automotive production technology division in 2012. Pre-tax profit in the 2012-13 financial year amounted to \$401 million — almost 16% up on the more comparable 2010-11 period — while net income was \$288.5 million and operating income hit a new high of \$442 million.

“International markets are on a solid footing with agricultural income developing positively,” says Dr. Theo Freye, board spokesman. “Volume in Western Europe was down slightly, but the core markets in Germany and France rose; Central Europe remained at a high level despite declining slightly; and growth rates in the Eastern European sector were positive.”

Freye adds, “The agricultural market in the U.S. and Canada stood out on account of sustained growth, as farmers received compensation through crop insurance payouts for crop failures caused by drought conditions.”

Leading the way in product innovation is a key pillar of the Claas business so it is little surprise that the group spent more on R&D again last year, equivalent to \$269 million. One in every nine Claas employees works in the R&D divisions.

This innovation culture will be recognized in February by four AE50 technology awards from the American Society of Agricultural and Biological Engineers (ASABE), including one for a product that is being kept under wraps until a launch event just before the awards ceremony.

In addition to the Disco hay mower and automated spout control for the Jaguar self-propelled forage harvesters, an AE50 award will be presented for CEMOS Automatic, the fully automated operating system available on Lexion combines assembled at the Claas of America in Omaha, Neb.

This system assesses harvesting

performance within a short distance of starting into a crop. It then automatically adjusts forward speed and internal settings for optimum performance according to the operator's chosen priorities.

Harvest performance of a different nature was in the spotlight this past fall when a tornado destroyed the Claas-owned Nebraska Harvest Center location in Wayne, Neb. A temporary operation was quickly set up to maintain harvest parts and shop service for Claas combine users in the area.

Nebraska Harvest Center was established with locations at Seward and Wayne a little more than 2 years ago after the local independent dealership decided to exit the business. A third location in Kearney, Neb., was added in 2012 and last fall a fourth facility in Ogallala was built.

“We have been serving a growing number of farmers in western Nebraska,” says Craig Gile, sales manager for Nebraska Harvest Center. “The new Ogallala location gives us the ability to improve our responsiveness to those customers, while introducing the Claas line to a new market.” **AEI**

Horsch's New U.S. Tillage & Planter Facility Up and Running

Product assembly is now underway at the new Mapleton, N.D., facility of Horsch LLC, the North American joint venture of the major European tillage and seeding equipment manufacturer.

Located a few miles west of Fargo, the new plant was first occupied 12 months after a ground breaking ceremony in August 2012 and is now manufacturing and assembling Horsch cultivators.

“We have started assembly and should have our paint operation functional in the next week or so,” reports Luke Thornton, director of sales. “We’ve been hiring new people for production over the last 2 months. Business is very good and production is already improving our throughput drastically.”

Plans for a major expansion of Horsch operations and its product offering in North America were first revealed in *Ag Equipment*

Intelligence in October 2011. The company wanted to tackle the market for U.S. corn tillage and planting and build on its presence in the northern wheat belt market established through the successful Horsch Anderson partnership started in 2002.

Products now being built in the U.S. based on successful implements from Horsch's European range include the Joker short disc cultivator and the Maestro planter, which gains speed and output from using high precision electric drive metering units.

The venture, which was renamed Horsch LLC last fall to focus on a single worldwide brand, is a three-way shareholding involving Horsch Maschinen GmbH, Kory Anderson and Harper Industries, with Anderson in the role of president.

Harper Industries in Kansas is already producing a variety of Horsch

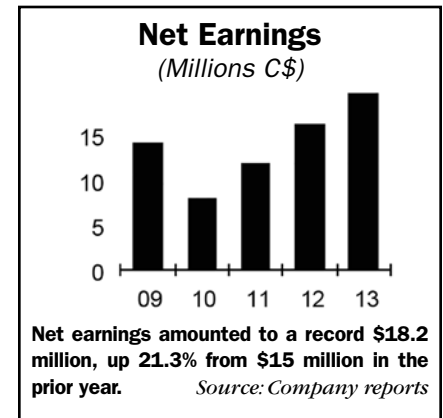
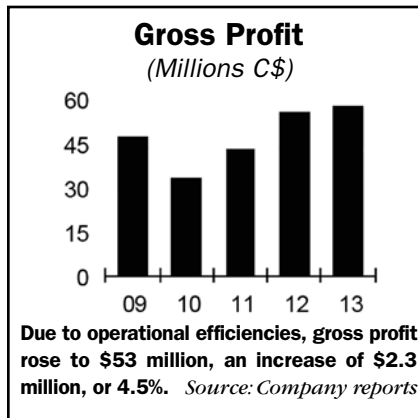
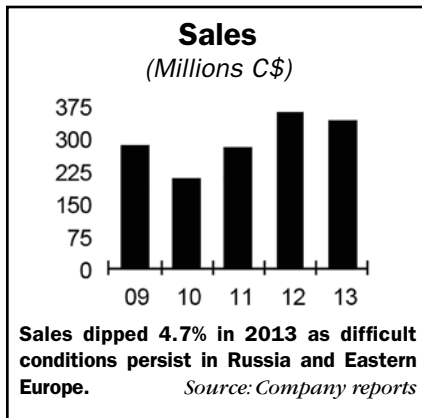
products, including the Maestro planter and Pronto disc grain seeder. Production of Panther air tine drills, Cougar hillside planting systems and certain Joker cultivator models continues at the Anderson, S.D., facility, which also serves as a R&D center for testing prototype machines.

The new factory and offices in Mapleton are responsible for the production of other Joker models and is the Horsch headquarters in North America.

During an exclusive video interview with *AEI* sister publication *Farm Equipment* in September last year, just after the first staff moved in, director of manufacturing Neil Anderson noted that crop plots demonstrating the techniques promoted by Horsch would be added to the production facility.

Anderson anticipated an initial group of 75 plant employees as well as 25 in administration. **AEI**

Bühler Posts Strong Earnings Despite Dip in Revenues



Strong margins, diligent expense control and favorable exchange rates contributed to record earnings at Bühler Industries last year, despite a drop in sales revenues.

Revenues were down 4.7% from the equivalent of U.S.\$330 million in 2012 to \$315 million in the company's financial year to September 30, but were still the second-best in the company's history. Income from operations was the highest ever recorded, hitting \$32.6 million, an increase of 9.5% or \$2.8 million over the prior year, while gross profit set another record at \$53 million, an increase of \$2.3 million (4.5%).

Bühler executives attributed the solid results to improved operational efficiencies and product mix to a recovery in gross profit as a percentage of sales, from 15.4% in 2012 to 16.9% and less than 1% shy of the 10-year average. Net earnings amounted to a record \$18.2 million, up 21.3% from \$15 million in the prior year.

"The slight drop in sales we saw after several years of rapid growth was caused by lower demand in Eastern Europe, with a significant loss of sales in Russia, Ukraine and Kazakhstan," says Dmitry Lyubimov, president of the Winnipeg, Ontario-based company. "In North America, we increased sales in both the United States and Canada despite competitive market conditions."

Demand for the seeding and tillage lines introduced in recent years helped matters and demand for Bühler's Versatile tractors continues to be strong, with the DeltaTrack becoming an immediate success,

notes Lyubimov: "So many orders were received in a short period that we had to increase production," he reports.

Increasing Dealers. The Bühler management team continues to focus on growing the Versatile and Farm King dealer network, offering a full range of products, investing in new product development and exploring new markets.

"We are seeing a growing interest from our dealers to carry a wide range of Versatile and Farm King branded product," notes Yury Ryazanov, CEO and director.

Adam Reid, Bühler's director of marketing, told *Ag Equipment Intelligence* that the company added 20 new Versatile dealers to its North American network, most of which are handling the company's full product line.

While the dealer/distribution network in North America continues to see growth, the appointment of the first Versatile distributor in the United Kingdom points to the potential for wheeled and track articulated tractors in Western Europe. Dealers signed by majority shareholder Rostselmash have grown by more than 200 in Russia, Ukraine and Kazakhstan, which should contribute to additional sales growth into the future.

Demand in Russia is expected to remain low for the time being, however, in contrast to the strong demand anticipated in North America. So Bühler managers expect to see only modest sales growth in 2014, with new products introduced in 2013 — in particular the new Versatile DeltaTrack and row-crop tractors — likely to gain sales momentum.

Financing, R&D. Cash flow is expected to decrease as the company has decided to finance a greater portion of its North American sales through accounts receivable. In addition, decreased cash flow will be particularly evident in the first quarter due to end of life purchases of inventory; but this will be offset by a reduction of inventory in subsequent quarters. The company is working to put increased financing in place during the year as it continues to plan for future growth.

"Research and development expenditures are projected to grow as the company continues to invest in new products and technologies," says Ryazanov. "The company did not pay dividends in 2013, but instead continued to reinvest its profits into research and development of new products, spending \$7.8 million."

The company also invested significantly in production facilities acquired in recent years, to increase capacity, improve quality and reduce cost in order to offer more competitive products to dealers and meet farmers' expectations.

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Great Plains Continues to Plow New Ground in Europe

Tillage equipment and seeder manufacturer Great Plains is making its presence felt in Europe with a combination of implements suited to local conditions and trials designed to illustrate the benefits of the company's vertical tillage and other crop establishment philosophies.

"We don't just sell machines, we sell techniques and solutions," emphasizes Simon Revell, European export director for the Salina, Kan.-based Great Plains. "Being involved in field trials with a range of industry partners produces useful results and observations that enable us to talk with conviction to farmers about different techniques."

It's also apparent that having an European R&D and manufacturing base is proving an advantage. Great Plains UK — the former Simba International business acquired in 2010 — has received significant investment in production facilities to expand output of its Simba products while also manufacturing selected U.S. implements for the European market.

"Having such modern, well equipped manufacturing facilities on site means we can be much more flexible with production schedules," comments Revell. "And the fact that the company is making a significant investment in developing machines specifically for Western Europe is being noted by farmers."

Great Plains UK managing director Colin Adams says the business enjoyed unprecedented progress last year, both in terms of work at the Sleaford factory in Eastern England and in developing markets for the group across Europe and the rest of the world.

"The factory ran at full capacity virtually all year to keep up with demand for Simba brand products for domestic and export sales, and to produce Great Plains products for the Russian and other markets of Eastern European," he says.

Engineering and design work involved creating entry level models of established Simba cultivator designs to broaden the customer base. The firm also created a European version of the Great Plains Yield-Pro planter that folds to meet road transport width restrictions. The have also re-created the heavy duty offset disc harrows on which the Simba business was originally built for today's applications.

Interest in the new 4B heavy discs launched at the Agritechnica show in Germany suggest there is real demand for this kind of machine from growers of sugar cane and corn, as well as for breaking virgin land and mineral extraction, says Ryan Haffner, Great Plains exports manager for the Southern Hemisphere.

"It's a very versatile machine and

built so well it will be hard to break," he comments. "We received a lot of interest from Africa, and a surprising number of inquiries from North America as well."

Recruiting multi-lingual staff to liaise with European dealers on sales and service issues has also been a priority, according to Adams. "We now have a bigger and more multi-skilled team than ever to ensure we continue a high level of support as our business grows. We have recruited staff with relevant technical and language skills to work in the markets and in support roles based at the factory."

Exhibiting the widest ever range of Great Plains machines at Agritechnica generated interest from potential dealers and customers across different territories, adds Daniel Rauchholz, president of Great Plains International.

"Great Plains enjoyed a profitable week at the show, receiving more than double the level of inquiries from previous events," he reports. "It allowed us to strengthen relationships with our existing international customers and make new contacts in markets where we have a lot of room for growth."

"The event is so important because it offers an unparalleled stage to tell the world that the Great Plains brand and product offering is growing," Rauchholz said. **AEI**

Lower Corn Production No Real Help for Machine Sales

Corn prices got at least a short reprieve from its 40% decline from a year ago on the news that USDA lowered ending stocks to 13.9 billion bushels, a drop of 64 million bushels from previous estimates.

Not only was corn's estimated average yield lowered to 158.8 bushels per acre from 160.4 bushels, but USDA also increased its domestic demand levels by 100 million bushels. Harvested acres were also increased to 436,000 acres, according to the World Agricultural Supply Demand Estimates (WASDE) issued by USDA on January 10.

The ag agency narrowed its corn price range to \$4.10-4.70 per bushel from \$4.05-4.75 per bushel.

"The corn yield reduction was a surprise, which afforded corn prices some relief off of even further depressed levels in recent days," Steve Fisher of UBS said in a note.

"We still believe lower corn prices this year could drive a single digit decline in crop receipts and in turn drive a larger decline in ag equipment. All else being equal, we expect the decline in ag equipment sales to accelerate to double digit levels in 2014," Fisher said.

Meanwhile, the outlook for soybeans and wheat produced no measurable changes in the overall forecast. USDA now forecasts a soybean price range of \$11.75-\$13.25, narrowed from \$11.50-\$13.50. The price range for wheat was also narrowed to \$6.60-\$7.00 from \$6.65-\$7.15.

C. Schon Williams, analyst for BB&T Capital Markets, added, "Based on the latest WASDE release, our estimates now indicate that farm cash receipts will be -14% year-over-year during the 2013-14 growing season. As a result, we maintain our negative bias on ag machinery." **AEI**

Ag Sales Remain Robust in December

North American large ag equipment retail sales increased in December, with 4WD tractor sales up 6.9% year-over-year, combines up 37.1% and row-crop tractors increasing 13.9%, according to the Assn. of Equipment Manufacturers.

Inventory levels and days-sales of inventories rose across all large equipment categories year-over-year, which adds to the growing risk for inventory destocking in 2014 given projected sales declines, Mircea (Mig) Dobre, analyst with RW Baird, said in a note to investors.

- U.S. and Canada large tractor and combine retail sales grew 17% year-over-year in December, up from the 10% increase in November. Sales were up 16% year-over-year in the U.S. and 23% in Canada.

- Combine sales saw a 37.1% increase year-over-year following a 25.8% increase in November. December is typically an above average month for combine sales, accounting for 9.7% of annual sales over the last 5 years. Used combine equipment prices continue to be weak based on dealer commentary regarding high inventory levels, Dobre says.

- Row-crop sales once again saw growth, posting a 23.9% increase vs. the same period last year, accelerating from the 7.2% increase in November. December is typically a strong month for row-crop tractor sales, accounting for 10.9% of annual sales over the last 5 years.

- 4WD tractor sales were up as well, with a 6.9% year-over-year increase vs. a 1.9% increase in November. Dobre says comparisons remain difficult into early next year. U.S. dealer inventories of 4WD tractors increased 13% year-over-year in November, while days sales of inventory was 98 vs. 89 in the previous year.

- Mid-range tractor sales strengthened in December, up 10.3% year-over-year after a 2.7% decrease last month. Compact tractor sales were down 6.7% year-over-year compared to an 8.5% increase in November. **AEI**

DECEMBER U.S. UNIT RETAIL SALES



Equipment	December 2013	December 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	November 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	6,725	7,388	-9.0	100,685	92,313	9.1	61,200
40-100 HP	6,189	5,730	8.5	57,120	54,219	5.4	29,839
100 HP Plus	4,345	3,877	12.1	37,275	31,699	17.6	12,257
Total-2WD	17,259	16,968	1.7	195,080	178,231	9.5	103,296
Total-4WD	836	799	9.1	6,908	6,933	-0.4	1,844
Total Tractors	18,095	17,734	2.0	201,988	185,164	9.1	105,140
SP Combines	1,279	920	39.0	10,765	9,807	9.8	1,717

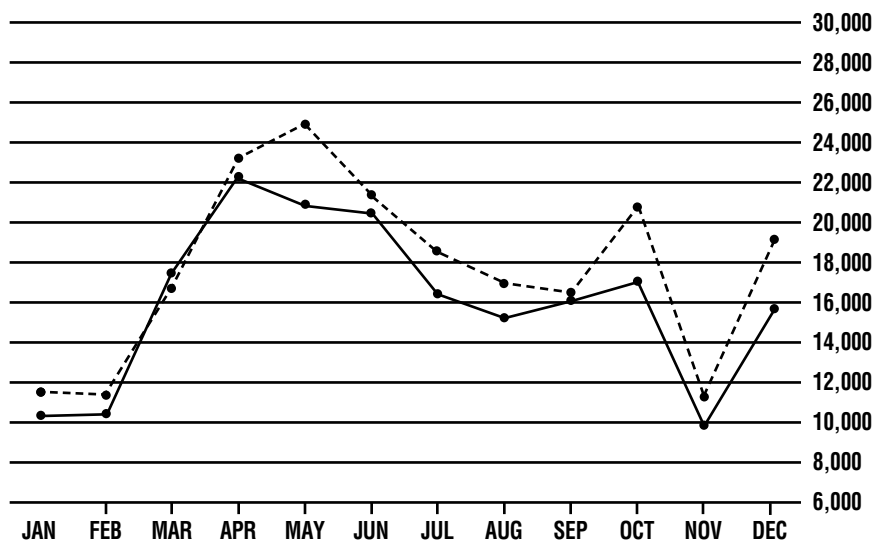
DECEMBER CANADIAN UNIT RETAIL SALES



Equipment	December 2013	December 2012	Percent Change	YTD 2013	YTD 2012	Percent Change	November 2013 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	958	845	13.4	13,573	12,077	12.4	6,722
40-100 HP	755	591	27.7	6,710	6,664	0.7	3,567
100 HP Plus	595	461	29.1	5,696	4,976	14.5	2,590
Total-2WD	2,308	1,897	21.7	25,979	23,717	9.5	12,879
Total-4WD	126	134	-6.0	1,567	1,589	-1.4	468
Total Tractors	2,434	2,031	19.8	27,546	25,306	8.9	13,347
SP Combines	268	208	28.8	2,952	2,696	1.7	626

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

--- 2013
— 5 year average



— Assn. of Equipment Manufacturers

Despite Solid 2013 Sales, Analysts See Start of Downturn in 2014

The last few years have been record years for North American tractor sales and for some it may be hard to remember a time when business wasn't booming. However, a look at unit sales over the last decade shows that business levels can shift dramatically in a fairly short period of time, and serves as a reminder that the industry remains very cyclical.

Looking to the year ahead, the major equipment manufacturers are forecasting modest declines in equipment sales for 2014. Machinery analysts following ag machinery also are calling for a softening in equipment sales this year.

Steven Fischer of UBS says lower corn prices could put pressure on cash receipts and high horsepower ag equipment demand. "Lower corn prices this year could drive a single digit decline in crop receipts and in turn drive a larger decline in ag equipment," he says.

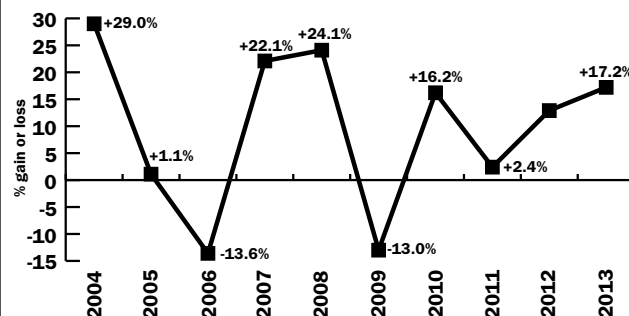
C. Schon Williams of BB&T Capital Markets has a similar outlook and says decelerating sales growth and further inventory buildup are concerning. "We expect falling commodity prices to remain a headwind for ag machinery through next year, with the most recent USDA WASDE report," he says. "Slowing tractor sales growth, inventory buildup and commodity pricing pressure represent signifi-

cant challenges in the near-term."

Looking farther down the road, Fisher sees the slow down picking up in 2015. "All else equal, we expect the decline in ag equipment sales to accelerate to double digit levels next year," he says.

AEI

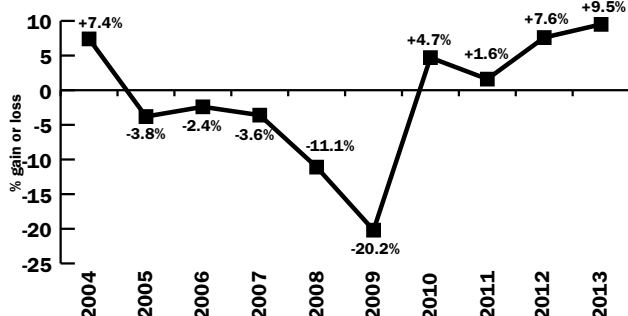
Row-Crop 2WD Tractors >100HP



Row-crop tractor unit sales have stayed fairly constant, with only 2006 and 2009 posting declines during the last 10 years. Since the latest drop off in sales in 2009, there's been a steady increase in sales over the last 4 years. The largest year-over-year increase since 2009 came in 2013 with 42,971 units sold.

Source: Assn. of Equipment Manufacturers

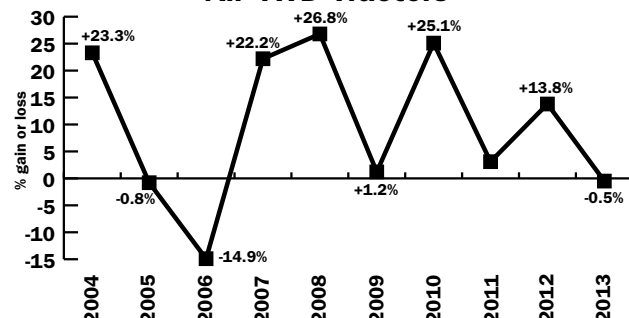
Compact 2WD Tractors <40HP



Compact 2WD Tractors reached a 10-year peak in 2013, with 114,258 units sold. Following about 5 years of growth, sales began to decline starting in 2005, with the largest fall coming in 2009 with only 90,499 units sold. Since 2010, sales have been growing again and 2013's 9.5% increase was the largest growth seen since decline.

Source: Assn. of Equipment Manufacturers

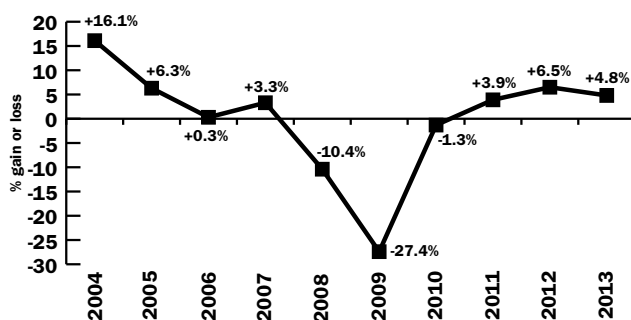
All 4WD Tractors



Overall, 4WD tractors have seen steady growth during the decade, despite the drop in 2006 when just 3,636 units were sold. After 6 years of year-over-year growth, 4WD tractors saw a slight decline in 2013 with 8,475 units sold compared to 8,525 sold in 2012, the highest amount during the 10-year period.

Source: Assn. of Equipment Manufacturers

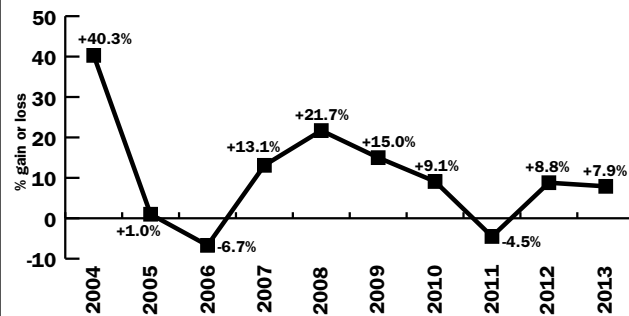
Mid-Size/Utility 2WD Tractors 40-100HP



Over the last decade, mid-range 2WD tractor unit sales hit a high point in 2004 at 77,586. Sales have been fairly stable over the last 10 years, with the exception of 3 years of decline between 2008-10. The biggest drop came in 2009 when just 55,566 units were sold.

Source: Assn. of Equipment Manufacturers

Self-Propelled Combines



Self-propelled combines started the 10-year range of 2004-2013 with a impressive increase in sales, and with the exception of 2006 and 2011 sales have continued to grow each year. 2006 saw the lowest unit sales during the decade with 7,835 units sold. Sales bounced back in 2007 with a 13.1% year-over-year increase in unit sales.

Source: Assn. of Equipment Manufacturers