From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

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Vol. 20, Issue 3

- **Cervus Revenus +23%**
- **Russian Subisidies**
- **Tough Winter on Ag**

Weak Gross Margins Hit Rocky Mountain's 4Q Revenues

While Rocky Mountain Dealerships posted a 4% gain in overall sales for 2013, its fourth quarter numbers took a hit as the dealer group focused on reducing equipment inventories and its construction equipment segment continued to falter.

"Also impacting our results during the year was the absence of $6 million in OEM incentives vs. last year, due primarily to lower pre-sell activity on new equipment and our pre-announced focus to sell down our used inventory where possible," says Matt Campbell, Rocky CEO. "Both of these initiatives, while necessary to ensure the appropriate balance in our inventory profile, have had a negative impact on year-over-year gross margins."

The company's results for the fourth quarter also reflected continuing weakness in the construction segment of its business. These results were compounded by a one time inventory impairment charge, which reflects its estimate of the reduced value of certain construction inventory related to an OEM's divestiture of a product line recently sold to one of its competitors.

Rocky Mountain Dealerships (RME) is the largest independent dealer of Case IH and Case Construction equipment in Canada and the second largest in the world. The company also announced that effective January 2, 2014, it had restructured its business and renamed the newly formed corporation as Rocky Mountain Equipment Canada Ltd. (RMEC). All of Rocky's business operations will be conducted through RMEC under the trade name "Rocky Mountain Equipment."

Analysis: In a note to investors, Ben Cherniavsky, noted that Rocky's consolidated sales of $291 million came in short of his estimate and was down 3% year-over-year. By segment, ag sales decreased 2% year-over-year due to higher equipment prices that decreased pre-sale activity; construction sales fell 22% due to Tier 3 vs. Tier 4 pricing headwinds and a highly competitive sales environment.

"Despite the sales shortfall, the main reason for Rocky's earnings 'miss' was weak gross margin performance as the chickens came home to roost with the mounting problem of inflated inventory," Cherniavsky

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After Record Year, Canadian Ag Growth Expected to Moderate

If Western Canadian farmers can get their crops to market, 2013 will have been a record year for much of the country's agricultural sector, and ag machinery dealers didn't have much to complain about either. But lower crop prices will in all likelihood lower the demand for new farm machinery going into 2014.

Last year "proved to be another good year for farmers in Canada," Raymond James analyst, Ben Cherniavsky, told investors in a February 27 note. "Input costs were favorable, growing conditions were ideal, and total crop volumes reached a record 96.5 million tonnes of grain. All of these variables contributed to very strong net cash income, which, according to Agriculture Canada, totaled $13.2 billion last year. This was only 1% below the record level of net cash income reported in 2012, and still well above the average net cash income of $9.1 billion between 2007-2011."

Freight Challenges. But Cherniavsky also pointed out that, "Western farmers have also been complaining about a rail car shortage that has made it difficult for them to get their product to market."

"Farmers are becoming increasingly frustrated by the continued poor performance of the railways," Agriculture Minister Gerry Ritz said, according to a Reuters report. Record crops of wheat and canola, along with frigid weather, have overwhelmed Canadian National Railway Co. and Canadian Pacific Railway Ltd., resulting in overdue orders for tens of thousands of grain cars.

Canada is the world's biggest canola exporter and usually the number 2 wheat exporter, but due to the shipping backlog, grain handlers have incurred penalties for keeping ships waiting at port and farmers have been forced to hold onto crops that grain handlers were unable to buy and move.

As a result, the Canadian government took the unprecedented step on February 7 of ordering the country's two major rail companies to ship at

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least 500,000 metric tons of grain each a week to ease a massive backlog.

Lower Net Cash Income. Despite the shipping challenges, Agriculture Canada is forecasting only a 1% drop in 2013 net cash income from 2012's $13.2 billion level. For 2014, net cash income is expected to decline as much as 5% to $12.6 billion, which would be 23% above the average for the 2008-12 period.

Crop receipts are forecast to total $29.1 billion in 2014, 3% below the projection for 2013, but 17% higher than the 2008-12 average. Aggregate farm cash receipts for livestock are forecast at $21.5 billion in 2014, just below the record level of 2013.

Slowing Equipment Sales? Despite strong market conditions and higher equipment sales in recent years, Canadian ag machinery dealers have not experienced any shortage of new equipment. "On the contrary, dealer inventories remain at generally elevated levels, particularly in the used category," Cherniavsky says.

"This largely reflects aggressive OEM sales incentives and the related trade-in activity that is an inherent part of almost every transaction for agriculture equipment. As a result, industry margins have been under some pressure, which is one reason why we have tweaked our numbers down," he said.

"We have also moderated our forecasts to account for slightly softer demand that we expect from the ag markets in 2014. As 2013 broke a number of farm records, unless all the stars realign, it will be a tough year to repeat," Cherniavsky told investors.

While Canadian sales of tractors and combines started off strong in January — year-over-year row-crop tractors +38.5%, total farm tractors +31.4% and combines +117.9% — the Assn. of Equipment Manufacturers noted slowing retail sales in February. (*See p. 7 for details.*) AEI

Canadian Farm Income Forecast — 2013 & 2014

	2012	Average 2008-12	2013	13/12	13/08-12	2014	14/13	14/08-12
Aggregate Level								
	($ millions)			(%)		($ millions)	(%)	
Total Market Receipts	50,746.9	44,253.5	51,415.6	1	16	50,610.7	-2	14
Program Payments	3,442.4	3,495.6	2,580.4	-25	-26	2,779.0	8	-20
Total Cash Receipts	54,189.3	47,749.1	53,996.0	0	13	53,389.7	-1	12
Net Operating Expenses	40,841.3	37,527.6	40,764.5	0	9	40,825.3	0	9
Net Cash Income	13,348.0	10,221.5	13,231.5	-1	29	12,564.4	-5	23

Source: Statistics Canada, Agriculture and Agri-Food Canada.

Romanian Farms in Dire Need of New Equipment

If Romania's farmers are to get anywhere near their productive capacity and improve crop yields, they will need to purchase 5,000 new tractors a year, according to George Stanson, business manager at Case IH & Steyer Balkans. He estimates that 1,800-1,900 new tractors will be sold in Romania this year.

Stanson is quoted in a *Balkans.com Business* report as estimating that 100,000-150,000 farmers in Romania continue to utilize obsolete tillage equipment on their farms.

The Case IH executive said Romania is far behind neighboring countries when it comes to farm mechanization. "The Poles bought 17,500 new tractors this year. It is true that their farmland surface is more than twice Romania's, but even so, the difference is considerable."

According to the Ministry of Agriculture and Rural Development, the average wheat yield in Romania is about 3 metric tons per hectare. The agency estimates that by investing in the correct plowing equipment alone, farmers there should be able to increase average yields to 4.5-5 metric tons per hectare.

A recent report from the Banca Comerciala Romana (BCR) found the average Romanian farmer owns four pieces of ag equipment, including tractors and harvesters.

This compares with 44 in Poland and 120 in France. Romania is the fifth largest wheat producer in the EU, but reported the lowest yield, according to the country's National Institute of Statistics. AEI

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Rocky Mountain Select Quarterly & Annual Financial Information
(In C$ thousands)

	Quarter Ended December 31					Year Ended December 31				
	2013		2012		Change	2013		2012		Change
Sales										
New Equipment	179,359	61.7%	195,813	65.1%	-8%	523,522	51.9%	549,036	56.8%	-5%
Used Equipment	84,925	29.2%	79,709	26.5%	7%	358,861	35.6%	297,476	30.8%	21%
Parts	18,099	6.2%	16,369	5.4%	11%	92,599	9.2%	84,653	8.8%	9%
Service	7,403	2.5%	7,933	2.6%	-7%	29,421	2.9%	30,459	3.2%	-3%
Other	795	0.4%	956	0.4%	-17%	3,359	0.4%	4,482	0.4%	-25%
	290,581	100%	300,780	100%	-3%	1,007,762	100%	966,106	100%	4%
Cost of Sales	257,329	88.6%	254,913	84.8%	1%	867,356	86.1%	818,595	84.7%	6%
Gross Profit	33,252	11.4%	45,867	15.2%	-28%	140,406	13.9%	147,511	15.3%	-5%
Net Earnings	2,066	0.7%	11,770	3.9%	-82%	15,313	1.5%	23,975	2.5%	-36%

Source: Company Reports

says. "Specifically, aggressive price discounting effected a consolidated gross margin of 11.4%, considerably below our 14.5% forecast."

Cherniavsky also cites the current outlook for falling cash net income for Canadian farmers in the year ahead. *(See story on the bottom of p. 1.)*

Inventory Efforts. Regarding the company's inventory of 2013, Campbell says, "In 2013, we successfully implemented several sales strategies aimed at moving used equipment inventory. We are pleased with the progress we have made throughout the year. Our overall inventories also declined in the year and we believe, as a result, our inventory is in a much better position to support improved margins in 2014."

Rocky's used equipment revenues increased by 6.5% to $84.9 million. For the year, equipment inventory decreased by $14.8 million. **AEI**

FARM MACHINERY TICKER (AS OF 3/12/14)

MANUFACTURERS	Symbol	3/12/14 Price	2/13/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$45.80	$46.85	$48.00	$30.11	30.74	88,807	576.12M
AGCO	AGCO	$52.82	$51.60	$64.60	$47.29	8.79	1,469,400	4.95B
AgJunction Inc.	AJX	$0.99	$1.10	$1.14	$0.70	N/A	58,625	N/A
Alamo	ALG	$59.03	$52.08	$61.27	$37.39	19.94	28,557	713.02M
Art's Way Mfg.	ARTW	$6.03	$6.10	$8.44	$5.40	15.97	5,480	24.4M
Blount Int'l.	BLT	$12.28	$12.26	$14.74	$10.52	17.30	232,039	606.1M
Buhler Ind.	BUI	$6.77	$6.71	$7.30	$5.30	7.87	2,607	169.25M
Caterpillar	CAT	$96.82	$96.11	$98.24	$79.49	16.84	6,084,900	61.75B
CNH Global	CNHI	$10.92	$10.78	$13.16	$10.16	13.42	677,855	14.74B
Deere & Co.	DE	$88.84	$85.85	$93.88	$79.50	9.58	2,986,550	32.84B
Kubota	KUBTY	$68.00	$82.12	$88.38	$65.21	55.97	20,015	85.4B
Lindsay	LNN	$83.74	$90.02	$94.50	$71.13	16.39	210,570	1.08B
Raven Industries	RAVN	$35.34	$36.37	$42.99	$28.38	28.16	119,638	1.29B
Titan Int'l.	TWI	$18.13	$18.04	$25.15	$14.14	28.55	677,333	971.22M
Trimble Navigation	TRMB	$39.07	$36.92	$40.17	$24.66	46.51	1,448,490	10.15B
Valmont Industries	VMI	$148.00	$148.95	$164.93	$129.00	14.30	280,308	3.97B
RETAILERS								
Cervus Equipment	CVL	$24.00	$24.10	$24.50	$18.50	14.46	17,273	358.01M
Rocky Mountain Equipment	RMEC	$11.52	$12.60	$14.88	$10.98	8.73	26,787	222.02M
Titan Machinery	TITN	$15.66	$16.49	$29.95	$14.19	13.51	224,427	327.29M
Tractor Supply	TSCO	$72.09	$66.18	$78.17	$49.82	31.07	1,867,750	10.06B

Full Year Sales Rise for Cervus, But Falling Margins Impact Bottom Line

Cervus Equipment, John Deere's biggest ag equipment dealer group in Western Canada, saw a 23% jump in revenues for 2013, but margin pressures pushed net profits down by 1.3% for the year.

The company said the increased revenue was driven by strong demand for agricultural equipment combined with increased new equipment sales and parts revenue in its commercial and industrial (C&I) segment throughout 2013.

During the year ended December 31, 2013, overall revenues grew by $167.2 million. Of this, $134.8 million was derived from the ag equipment segment. Same store revenue increased $103 million, or by 14.1%, and $89.3 million, or 18.7%, came from Cervus' farm machinery sales.

Cervus Equipment Select Annual Financial Information
(In C$ thousands)

	2013	2012	Change
Revenues	899,806	731,586	23.0%
Ag Equipment Segment			
Equipment			
New	317,274	257,301	23.3%
Used	182,306	138,852	31.3%
Total Equipment	499,580	396,153	26.1%
Parts	68,035	50,062	35.9%
Service	41,905	29,663	41.3%
Rental and Other	3,946	2,815	40.2%
Total for Segment	613,466	478,693	28.2%
Gross Profit	163,309	138,810	17.6%
Gross Margin	18.1%	19.0%	-4.7%
Net Profit	23,326	23,625	-1.3%

Source: Company Reports

Gross Margins. Despite the strong sales showing, gross margins fell to 18.1% for the year from 19% in 2012. According to the company, the decrease was primarily a result of margin and pricing pressure in the agricultural segment.

"The increase in our sales, partially offset by a decrease in gross margin percentage, resulted in an increase in our gross margin dollars of $24.5 million for the year ended 2013 when compared to 2012. The increase in gross margin dollars is attributable to a $15.3 million increase in agriculture, and $9.2 million increase in the commercial and industrial segment."

Ag Sales. New ag equipment sales in 2013 increased by $60 million or 23.3% and used equipment sales increased by $43.5 million or 31.3% compared to the previous year. On a same store basis, new equipment sales increased $35.2 million (13.7%) and used equipment revenue increased $36.4 million (26.2%) above 2012 levels.

Parts revenue increased by $18 million and service revenue was up $12.2 million. Same store parts revenue increased by $10.3 million (20.6%) and same store service revenue increased $6.3 million (21.1%) vs. 2012. Total net profit available to shareholders generated by the ag equipment segment has increased $0.9 million or 5.1%.

"Market and economic conditions would indicate our agricultural equipment segment may retreat slightly from record activity levels in 2013," the company says.

Analysis. "Consolidated revenues of $238 million increased 23% year-over-year and topped our $215 million forecast due to strong sales growth in the ag segment," Ben Cherniavsky, analyst for Raymond James, said in a note.

"Gross margin of 17.6% was down and came up short of our 19.4% estimate resulting from an unfavorable sales mix as Cervus focused on reducing used equipment inventory levels and competitive pressures related to overall inflated industry levels."

In the long term, Cherniavsky said, "We continue to believe that Cervus will benefit from consolidation opportunities and operational performance in New Zealand and Australia, as well as synergies from its recent rebranding initiative, and consolidation opportunities in the both the ag and C&I segments." AEI

Deere's February Sales Somewhat Better than Industry

Deere & Co. released its retail sales commentary for February 2014 on March 12. The company reported that industry sales of utility tractors were down 1% for the month; Deere's sales in this category were down a single digit, but more than that of the industry. Industry wide inventory of utility tractors was 52% of the previous 12 months and Deere's was lower than that of the industry.

For row-crop tractors, industry sales were down 6%; Deere's sales were down less than the industry. Inventory of row-crop equipment was 29% of the previous 12 months; Deere's inventory was lower than the industry.

For 4WD tractors, industry sales were down 14% in February; Deere's sales were down double digits, but less than the industry. Industry inventory of 4WD equipment was 24% of the previous 12 months; Deere's inventory was in line with the rest of the industry.

Industry wide sales of combines were down 15% in February; Deere sales were down more than the industry. Inudstry wide inventory of combines was 12% of the previous 12 months; Deere's inventory was slightly lower than the industry.

Selected Deere turf and utility equipment sales were down a single digit in February. AEI

Deutz Secures New Off-Road Engine Customers

With 3 new ag equipment clients secured in quick succession, Deutz is making waves in the off-highway diesel sector with its new compact 4-cylinder engines.

The European Bobcat division of Korea's Doosan Industries is switching from Perkins to Deutz for its 3 ton and 3.5 ton lift agricultural and construction telescopic handlers built in France, and 4 ton capacity high-lift construction models.

Manitou had moved from Perkins to MTU Mercedes-Benz 4-cylinder engines for its telescopic handlers but at the start of this year began installing the Deutz TCD 3.6 L4 that Bobcat has chosen.

That engine, plus the smaller TCD 2.9 L4, has been selected by ARGO Tractors to power a new range of Landini and McCormick models aimed at the livestock farm sector in Europe and the general-purpose market in North America. The Italian firm is using Deutz for the first time. ARGO's larger tractors are powered by Perkins and FPT Industrial engines *(see Ag Equipment Intelligence, November 2013)* and Yanmar powered the predecessors of the new models, which are yet to be launched.

"We are pleased that in ARGO Tractors, Manitou and Bobcat we have found new European partners in the agricultural machinery sector," says Michael Wellenzohn, Deutz director of sales, service and marketing. "They expand our customer base in the engine size below 4 liters and underscore the versatility and robustness of our engines, which are deployed in a great variety of different application fields."

During an interview reported by *Diesel Progress* magazine, Deutz CEO Dr. Helmut Leube points out that the new engines were designed and developed at the lowest point of the recent financial crisis and as a result have come to the market at the right time in terms of the emissions schedule. He adds that, unlike the Deutz 2011 engine, the newcomers are "structural" and therefore suitable for downsizing installations in tractors.

Last year, Deutz completed an $8 million investment in a new R&D center at its headquarters plant in Cologne, Germany, providing the main engineering resource for base engine design.

"But we want to be closer to the OEM customer with application engineering," he says. "We already do this in Atlanta for our American customers and in Beijing for our Chinese customers, and will expand this concept further through our growth and expansion within China."

At the equivalent of more than $290 million, Deutz revenues from agricultural machinery engines were up 97% in the first 9 months of 2013, accounting for 21% of group revenues, after slumping by more than a third in 2012. **AEI**

Fierce Winter, Oil Boom Creating Havoc for Farmers, Dealers, Ethanol

If it isn't a shortage of rail cars to haul grain, it's this year's weather itself that has given much of North American agriculture and the railroad industry an ongoing headache just getting product where it needs to be. Even some farm equipment dealers say the weather and rail traffic is affecting their sales of farm machinery.

Grain Shipments. *The Pioneer Press* out of Minneapolis is reporting that record years for crop and oil production is driving up demand for freight trains throughout much of the North Central and Upper Midwest regions.

Area farmers and grain elevator operators have been coping with slow rail service since the big harvest last fall. With no reliable way to ship their products to ports in the Pacific Northwest, elevator operators are heaping millions of bushels of grain in piles on the ground and refusing to buy more from farmers.

"It's very major," said Todd Yeaton, the manager of the Gavilon grain elevator in Kimball, S.D. In late February, Yeaton said a 110-car train full of grain was still stuck in South Dakota 9 days after he loaded it. Normally, that would be enough time for the grain to reach the West Coast. "It's hurting the industry. It really, truly is."

Equipment Dealers. Radio station CJME out of Saskatchewan is reporting that ag machinery dealers are also feeling the pinch of this bitter winter. The station reports that without farmers being able to sell their grain, they aren't as able or eager to make major capital purchases for their operations.

In a recent report, the station spoke with Brad Miller, store manager for Cervus Equipment, Prince Albert, a John Deere dealer, who spoke of the stress farmers are under. "They're frustrated that they can't move their grain and bills have to be paid and inputs have to be purchased, and they don't have any money," Miller said.

He's expecting business to be slower than usual until the majority of grain can be hauled. "It's been really slow, so they want to wait until they get cash flow," Miller said.

Ethanol Shipments. Opponents of ethanol are using the difficult weather to blame ethanol for rising gasoline prices. In response, Christina Martin, executive vice president of the Renewable Fuels Assn., issued a statement about the situation.

"Gasoline prices are not higher on the East Coast due to any change in ethanol economics, but rather due to weather-induced rail logistics problems. Both historic winter weather patterns and increased demand for railcars have made it more difficult to move ethanol to the Northeast," Martin says.

"When railcars weren't stuck in snow drifts or moving cautiously over frozen tracks, railcars were being diverted for purposes of carrying more crude oil from fracking. The bottom line is that ethanol remains the lowest cost transportation fuel in the world and spikes in gasoline prices are most often driven by oil prices and availability, not ethanol." **AEI**

Russian PM Blasts Farmers for Purchasing Foreign Equipment

Russia Tractor & Combine Unit Shipments January 2014 (Report released on 3/5/2014)						
	January			YTD January		
Equipment	2014	2013	% Chg	2014	2013	% Chg
2WD Farm Tractors						
< 40 HP	825	483	70.8	825	483	70.8
40 < 100 HP	1,802	1,855	-2.9	1,802	1,855	-2.9
100+ HP	324	647	-49.9	324	647	-49.9
Total 2WD Farm Tractors	2,951	2,985	-1.1	2,951	2,985	-1.1
4WD Farm Tractors	37	45	-17.8	37	45	-17.8
Total Farm Tractors	2,988	3,030	-1.4	2,988	3,030	-1.4
Self-Propelled Combines	125	255	-51.0	125	255	-51.0

Source: Companies providing data to the Russian domestic market, Raosagromash

Russian Prime Minister Dmitry Medvedev lashed out against regional subsidies used by farmers to purchase foreign farm equipment, according to a March 12 report in *The Moscow Times*. "I would be less liberal about the regions that subsidize foreigners," he said at a March 11 meeting at the Rostselmash plant in Rostov-on-Don. The regions that do, might end up without federal financial aid, he said.

On the other hand, European farm equipment makers have been highly critical of Russia's imposition of safeguard tariff measures and restricted access to subsidized loans. *(See Ag Equipment Intelligence, September 2013, "VDMA Lambasts Russia on Equipment Tariffs.")*

Rostselmash is the country's biggest producer of farm equipment and also owns a majority of Canada's Buhler Industries, which manufacturers the Versatile tractor and Farm King implements.

Raising Subsidies. According to Russia's Industry and Trade Minister Denis Manturov, more than 30 regions are providing these subsidies. Agriculture Minister Nikolai Fyodorov urged the regions to come up with incentives, instead, for farmers to buy local equipment, including locally produced foreign machines.

Medvedev announced that the government is raising its subsidies to manufacturers of farm equipment fourfold to $53 million this year, in a bid to upgrade the country's fleet of tractors and combines.

The subsidy covers 15% of the price that producers charge for their equipment, he said. The subsidy would apply to 2,800 units of equipment this year. Last year, the subsidy was in effect for only 3 months, according to the report.

Old Equipment. Russian farmers now operate 435,000 tractors and 153,000 combines, according to Medvedev. About half of the equipment has been in use for more than 10 years and is in need of replacement. In Russia, $3.7 billion worth of farm machinery was sold last year, of which $2.6 billion was imported. Farms bought 15,300 tractors and 6,300 combines last year.

Another Story. According to VDMA, the agricultural machinery association based in Frankfurt, Germany, the market for combines in Russia declined by more than 20% in the first half of 2013 as a result of the high tariffs imposed on foreign ag equipment. "Western manufacturers have been affected by this trend even more seriously than the Russian ones," said Dr. Bernd Scherer, managing director of VDMA. The association estimates sales declined by 28% for Western brands through the first half of the year.

"The reason for this mismatch is quite clear," Scherer said. "Massive protective duties make it very difficult for Russian farmers to invest in innovative agricultural machinery. In short, these protectionist measures are discriminatory, as they do not comply with WTO commitments."

In February 2012, Russian officials slapped a 27.5% duty on all combines produced by Western manufacturers in Russia. Scherer noted that this special protective tariff was suspended in July 2013 due to the veto imposed by Kazakhstan.

According to VDMA, until 2008 Western brands commanded a market share of 30%, while annual domestic demand for combines was estimated at 10,000-12,000 units. But market share declined to 15% in 2009 and 2010 due to the tariffs.

Most Case IH Dealers Won't Drop Specified Shortlines

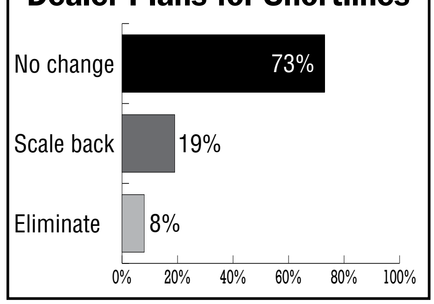
In the last issue of *Ag Equipment Intelligence* we reported on Case IH leaning on its dealers to drop as many as 7 shortline equipment brands.

To follw up, we conducted a poll to determine how Case IH dealers were reacting to the dictate to take those equipment lines off of their lots.

Survey results showed about three-quarters of the Case IH dealers say the push for brand purity will have little or no effect on their business plans or decision to remove the specified shortline equipment.

Slightly over 19% say they would scale back ordering the mentioned shortlines in 2014. Only 8% will begin to eliminate the shortlines that Case IH specified from their dealerships in the year ahead.

Dealer Plans for Shortlines



Ag Equipment Sales Soften in February

North American large ag equipment retail sales fell in February, with 4WD tractor sales down 14.1% year-over-year, combine sales down 15.2% and row-crop tractors down 6.4%, according to the the latest figures released by the Assn. of Equipment Manufacturers on March 11.

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

- U.S. and Canada large tractor and combine retail sales decreased 9% year-over-year in February, down from the 12% increase in January. U.S. sales decreased 9% vs. the same period last year and Canadian sales were down 8%.
- Combine sales were down as well, posting a 15.2% year-over-year decrease in February following a 32.7% increase in January.

U.S. combine inventories were 4.3% higher year-over-year in absolute terms in January vs. up 53.8% last month. February is typically the slowest month for combine sales, accounting for 4.8% of annual sales over the last 5 years.

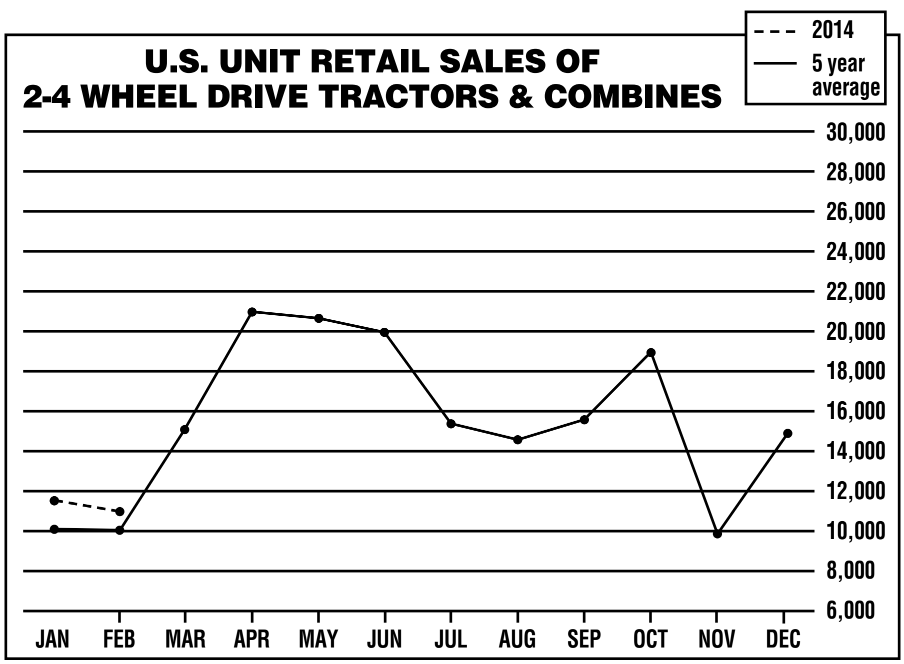
- Row-crop tractor sales decreased 6.4% year-over-year, down from the 12% increase observed in January. U.S. row-crop tractor inventories increased 23.9% year-over-year in January vs. a 31.3% increase in December. February is the least important month for row-crop tractor sales, accounting for 6.3% of annual sales over the last 5 years.
- 4WD tractor sales declined in February, down 14.1% year-over-year vs. a 6.9% decrease in January. U.S. dealer inventories of 4WD tractors increased 15.6% year-over-year in during the month.
- Mid-range tractor sales fell as well in February, down 1.2% year-over-year after a 2.1% increase last month. Compact tractor sales rose 3.9% year-over-year, up from the 1.4% increase last month. **AEI**

JANUARY U.S. UNIT RETAIL SALES

Equipment	February 2014	February 2013	Percent Change	YTD 20 14	YTD 2013	Percent Change	January 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,720	4,610	2.4	8,751	8,754	0.0	62,609
40-100 HP	3,303	3,316	-0.4	6,970	7,030	-0.9	29,999
100 HP Plus	2,047	2,165	-5.5	4,989	4,855	2.8	10,051
Total-2WD	10,070	10,091	-0.2	20,710	20,639	0.3	102,659
Total-4WD	455	523	-12.0	995	1,097	-9.3	1,538
Total Tractors	10,525	10,614	-0.8	21,705	21,736	-0.1	104,197
SP Combines	414	531	--22.0	1,068	1,074	-0.6	1,159

FEBRUARY CANADIAN UNIT RETAIL SALES

Equipment	February 2014	February 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	January 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	590	501	17.8	1,329	1,059	25.5	6,502
40-100 HP	352	385	-8.6	864	762	13.4	3,241
100 HP Plus	376	424	-11.3	750	694	8.1	2,569
Total-2WD	1,318	1,310	0.6	2,943	2,515	17.0	12,312
Total-4WD	120	146	-17.8	211	250	-15.6	490
Total Tractors	1,438	1,456	-1.2	3,154	2,765	14.1	12,802
SP Combines	112	89	25.8	282	167	68.9	522



— Assn. of Equipment Manufacturers

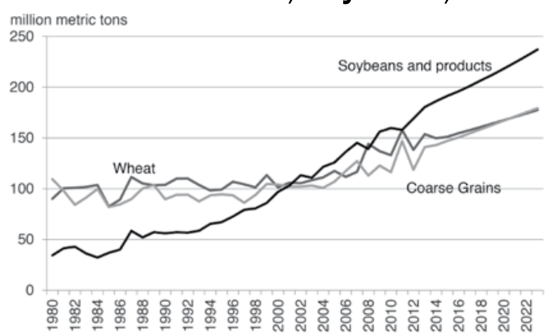
Despite Commodity Price Volatility, Ag Fundamentals Remain Sound

While the unpredictability of commodity prices in the past year have given some cause for concern, the fact remains U.S. agricultural fundamentals continue to support the long-term health of the industry.

In his presentation during the USDA Agricultural Outlook Forum in February, Joseph Glauber, USDA's chief economist, said, "Overall, the financial health of the agricultural sector is strong as it enters a period of lower crop prices." The strength of the U.S. ag economy is based on the continuing growth of exports, as well as the sound financial footing of U.S. farmers.

Growing Exports. According to Glauber, U.S. agricultural exports are estimated at $142.6 billion for fiscal 2014, $1.5 billion higher than the previous record level in fiscal year 2013. The forecast for grain and feed exports is expected to be $31.3 billion on greater volumes of wheat, corn, and feeds and fodders.

Global Trade — Corn, Soybeans, Wheat

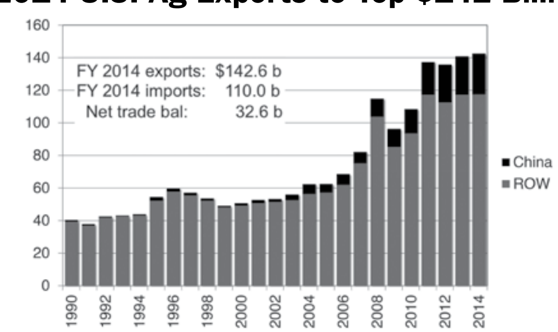


Source: USDA Agricultural Projections to 2023

Global trade is expected to increase over the next 10 years by 15% for wheat, over 30% for corn and almost 40% for soybeans. "Based on projected yield growth, the world will need to allocate 50 million more acres of corn, wheat and soybeans, at U.S. productivity rates, to meet the increase in trade demand," says Glauber.

Exports to China are forecast up $3.5 billion to a record $25 billion. Soybean export value is expected to increase on strong Chinese demand coupled with higher U.S. prices. First-quarter (October – December) exports to China set a new record and are 23% ahead of the same period a year ago. China is once again forecast to be the top U.S. market, according to USDA.

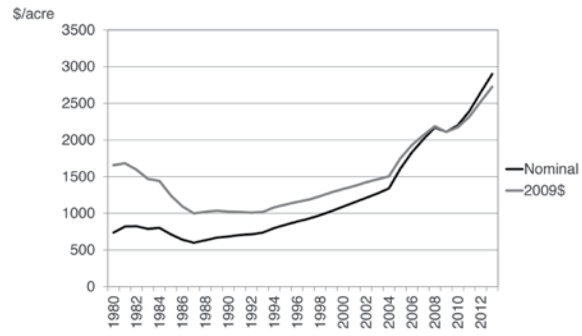
2014 U.S. Ag Exports to Top $142 Billion



Source: USDA-ERS Outlook for U.S. Agricultural Trade

Sound Financials. Glauber also pointed to rising land values and steady farm income has the basis for a continuing healthy U.S. farm economy.

U.S. Farmland Values



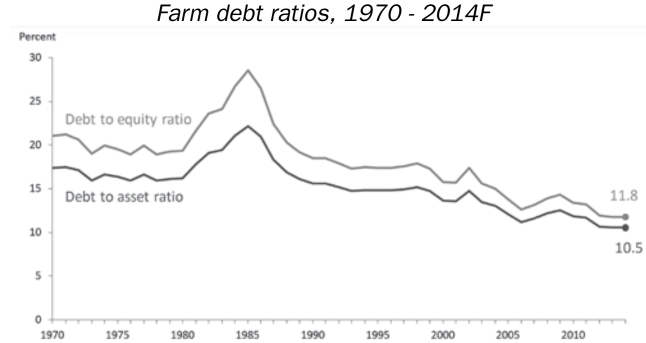
Source: USDA-NASS

"While net cash income for 2014 is forecast at $101.9 billion, it is still more than $5 billion above the previous 10-year average," says Glauber. The decline is largely led by a decrease in crop receipts which are projected to decrease 14% in 2014. At the same time, farm expenses are projected to decrease by $3.9 billion in 2014, led by lower feed costs, according to Glauber.

Farm equity is projected to reach another nominal record, despite the substantial slowdown in asset growth and the expectations of higher debt levels. Glauber reported that, "Since 2006, more than $1 trillion has been added to farm equity, largely through increased land values." But wth lower farm income forecast for 2014 and increases in long-term interest rates, growth in farmland values is expected to slow and perhaps decline in some regions.

Farm Debt Ratios in 2014

Farm debt ratios, 1970 - 2014F



Source: USDA, ERS Note: 2013, 2014 forecasts

Glauber also noted the low debt of U.S. farmers. "Aggregate farm debt, measured as a percent of total farm assets, is forecast at 10.5%, the lowest level since ERS began calculating the measure in 1960 and considerably below the levels experienced during the 1980s farm financial crisis when debt-to-asset ratios were above 20%.

"To put the 1980s' debt level in context, farmland values would have to fall by over 55% to raise the debt-to-asset ratio to 20% assuming no change in farm debt," Glauber says.