From the editors of *Farm Equipment...*

Ag Equipment Intelligence

September 15, 2014
Vol. 20, Issue 9

News, Information & Analysis for the Ag Equipment Marketer

- Precision Ag Outlook
- Strong Dollar Impact
- Age of Ag Equipment

Headwinds Persist, But Titan Machinery on Track with Inventory, Cash Targets

Despite falling grain prices and instability in its Ukrainian market, Titan Machinery reported its earnings for the second quarter on September 9 and said that it is on plan with its equipment inventory reduction and cashflow goals. At the same time, the company announced the acquisition of a Case IH dealership in Wayne, Neb.

The following day, CEO David Meyer disclosed a purchase of 90,250 TITN shares at $13 each. This purchase, plus the 2,903,211 shares reported in the most recent Titan Machinery Annual Report, puts Meyer's stock ownership just under 3 million shares.

2Q Results. For the second quarter of its fiscal 2015 ended July 31, 2014, the Case IH and New Holland dealership group reported revenue was $451 million, compared to $488.2 million in the second quarter last year. Equipment sales were $320.1 million vs. $358.4 million in the same period a year ago. Parts sales were $70.5 million compared to $70.6 million last year. Revenue generated from service was $38.4 million compared to $39.9 million a year earlier. Revenue from rental and other increased to $21.9 million from $19.3 million in the second quarter last year.

Gross profit for the second quarter was $79.7 million vs. $83.5 million in the second quarter last year. The company's gross profit margin was 17.7% during its most recent reporting period compared to 17.1% a year ago. Gross profit from parts and service was 57.4% of overall gross profit, compared to 57.6% in the second quarter last year.

"The agriculture industry continues to face a number of headwinds, including lower projected net farm income, and lower corn and soybean prices," Meyer said in a prepared

Titan Machinery — 2Q & 6 Months Revenue Analysis
(in millions of dollars)

	Q2 FY2015	Q2 FY2014	% Change	First 6 Months FY2015	First 6 Months FY2014	% Change
Total Revenue	$451.0	$488.2	-7.6%	$916.5	$929.9	-1.4%
Equipment	$320.1	$358.4	-10.7%	$665.1	$693.1	-4.0%
Parts	$70.5	$70.6	-0.2%	$138.9	$133.5	4.1%
Service	$38.4	$39.9	-3.6%	$75.5	$71.9	5.1%
Rental & Other	$21.9	$19.3	13.7%	$36.9	$31.4	17.5%

Source: Company Report

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Early Results Show 'Presells' Down vs. Last Year

Preliminary data from *Ag Equipment Intelligence's* "2015 Dealer Business Outlook & Trends" survey indicates that equipment early orders are down compared to what North American farm equipment dealers saw a year ago.

Responses from 245 dealers (as of September 10) to the question, "How do your presells this year compare with early orders last year at this time?" show that nearly 57% of dealers say their early orders are down compared to the same time a year ago. Last year, 27.2% of dealers reported their early orders were down compared to the previous year.

Slightly less than 10% of dealers say their early equipment orders are up so far vs. a year earlier. A year ago, slightly over 27% of dealers reported their presells were up compared with the previous year.

This year, one-third of dealers responding to the survey report their early orders are about the same as the year earlier. In the 2014 survey, 45% of dealers indicated their presells were the same as the previous year.

While the data is preliminary, it's not expected that the final results will shift significantly before the end of the year. Several dealers noted that the uncertainty surrounding Section 179 and bonus deprecia-

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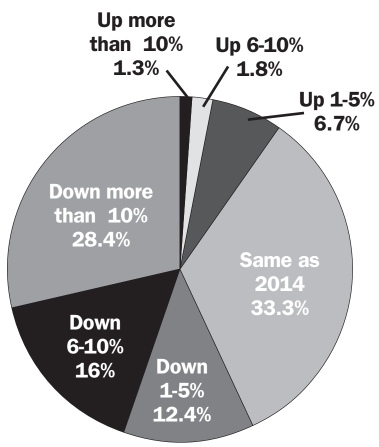
tion is causing farmers to postpone commitments to purchase big ticket items. While some level of accelerated depreciation is expected to be passed by the U.S. Congress, a vote on the bill isn't likely until after the November elections. This would be past the normal early order schedules set by the manufacturers. It's also not known what allowances will be built into the new depreciation rules.

In 2013, a $500,000 Section 179 limit was in effect. Unless Congress updates the rules, there will only be a $25,000 Section 179 limit allowed in 2014. AEI

Early Orders 2015 vs. 2014



Nearly 57% of dealers report early orders are down compared to a year ago.

Source:Ag Equipment Intelligence Survey

Inability to Expand Industry Presence, Miller Sells Business to New Holland

Facing one of the biggest barriers to growth for farm equipment shortline manufacturers — finding dealers — on September 3 Miller-St.Nazianz announced it had sold its sprayer and silage packaging/storage products business to New Holland.

Based in St. Nazianz, Wis., the company, best known for its front-boom, self-propelled agricultural sprayers, was founded in 1899 and its current president, John Miller, represented the fifth generation of the family to manage the 260-employee business. In addition to its own brand of sprayers, Miller had also started manufacturing sprayers for New Holland in 2010. Prior to that, New Holland did not offer a sprayer to its dealers, many of whom carried Miller-St. Nazianz as well as other branded sprayers at the time.

In a letter to its dealers, Abe Hughes, New Holland's vice president, and Ron Shaffer, director of growth initiatives, said, "The Miller acquisition defines a new chapter for New Holland's commitment to the professional and broadacre segment of the agricultural industry and provides a strong platform to grow the self-propelled sprayer business on a global scale."

In an interview with the *Milwaukee Journal Sentinel* following the announcement of the sale, Miller said the company had been struggling to expand its market presence since 99% of farm equipment dealerships carry a major line. In other words, Miller-St. Nazianz was unable to find dealers and the major farm equipment makers often pressure their dealers to not carry other product brands.

With the continuing consolidation of dealerships during the last decade or more, fewer independent equipment retailers remain that don't carry one of the major brands. Shortline equipment makers have been scrambling to expand their distribution networks, and some, like Equipment Technologies, Claas and Krone, have gone so far as to establish their own retail outlets, albeit reluctantly.

> ***"It's not a product that you can take any equipment dealer and turn them on as sprayer dealers overnight..."***

Although one senior-level manager at a competing self-propelled sprayer manufacturer told *Ag Equipment Intelligence* that he did not see it coming, he said the move did not surprise him as he believed it was bound to happen eventually once the parties started working together. While the kind of OEM partnership Miller had with New Holland is one in which an acquisition can occur by first bringing the supplier to their knees, he added that it's also possible that Miller sold out at a good time before enduring a downcycle.

Hardi and PLA's expansion into the U.S. has made a crowded self-propeller segment even more crowded. "What Miller said in the paper about getting dealers is true. It's not a product that you can take any equipment dealer and turn them on as sprayer dealers overnight. The complexities involved with sprayers — both machinery-wise and agronomically — are not for everyone." AEI

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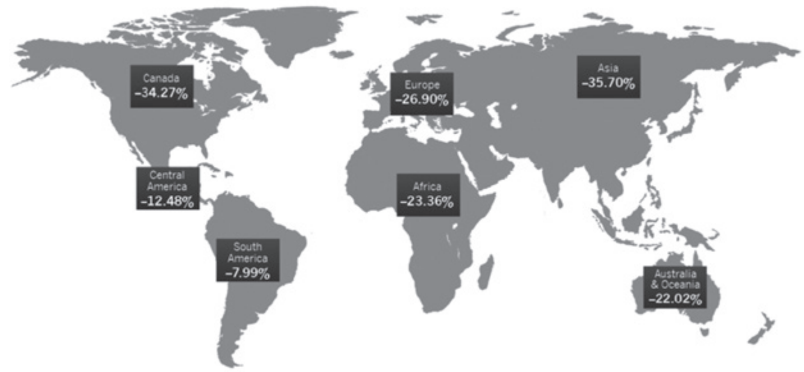
Firm Dollar Doesn't Help U.S. Ag Outlook

If falling grain prices weren't enough for U.S. agriculture to contend with, a strong dollar could further stunt any hope for growth in the year ahead for American farmers and equipment manufacturers. On the other hand, a strengthening dollar is making equipment produced overseas less expensive than it's been in sometime.

According to a September 9 AP report, the strengthening American economy, combined with a gloomy outlook for growth elsewhere, is pushing the U.S. currency higher. The dollar is up 6.4% against many major currencies since the start of May and has risen in three of the past 4 months. Last week, U.S. currency climbed to its highest level in 6 years vs. the Japanese yen. It's also trading at its highest level in 14 months against the euro. This means lower prices for products imported into the U.S. and higher prices for U.S. exports.

U.S. Exports Of Farm Machinery Equipment

(Year-To-Date June 2014 vs. Year-To-Date June 2013)



Exports of U.S. farm machinery were off by 27% through the first half of the year.

Sourece: U.S. Commerce Dept.

U.S. Equipment Exports. The effects of the strong dollar, along with falling ag commodity prices, are showing up in decreased exports of U.S.-made farm products. According to a September 5 report from the Assn. of Equipment Manufacturers, through the first 6 months of 2014, exports of U.S. ag machinery dropped by 27% vs. the same period in 2013. During January through June of this year, the value of U.S. exports of farm equipment was $4.77 billion. This compares to $6.53

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FARM MACHINERY TICKER (AS OF 9/11/14)

MANUFACTURERS	Symbol	9/11/14 Price	8/11/14 Price	1-Year High	1-Year Low	P/E Ratio	Avg. Volume	Market Cap.
Ag Growth Int'l.	AFN	$45.70	$48.40	$49.44	$36.04	20.87	19,318	599.49M
AGCO	AGCO	$47.14	$49.19	$64.60	$46.73	8.64	1,317,750	4.42B
AgJunction Inc.	AJX	$0.65	$0.75	$1.20	$0.65	65.00	42,033	46.99M
Alamo	ALG	$45.51	$49.44	$61.27	$45.00	16.49	29,691	552.86M
Art's Way Mfg.	ARTW	$5.10	$5.51	$7.10	$5.00	104.08	7,043	20.64M
Blount Int'l.	BLT	$15.86	$15.09	$16.32	$10.84	87.14	246,291	784.64M
Buhler Ind.	BUI	$5.60	$5.90	$7.30	$5.57	10.98	1,052	140M
Caterpillar	CAT	$105.59	$104.50	$111.46	$81.87	17.62	3,880,960	66.29B
CNH Global	CNHI	$8.19	$8.51	$13.16	$8.12	9.96	954,459	11.08B
Deere & Co.	DE	$82.08	$87.16	$94.89	$80.76	9.22	3,169,830	29.42B
Kubota	KUBTY	$73.24	$68.73	$87.15	$62.95	14.52	20,766	18.31B
Lindsay	LNN	$76.15	$77.74	$92.93	$71.13	19.42	149,414	969.31M
Raven Industries	RAVN	$26.66	$29.55	$42.99	$26.20	24.92	99,603	972.9M
Titan Int'l.	TWI	$13.88	$15.00	$19.89	$13.66	n/a	526,226	743.93M
Trimble Navigation	TRMB	$32.90	$33.17	$40.17	$27.97	33.20	1,624,530	8.55B
Valmont Industries	VMI	$139.72	$145.21	$163.23	$129.00	16.26	310,931	3.66B
RETAILERS								
Cervus Equipment	CVL	$19.74	$22.19	$24.50	$19.50	15.83	11,171	300.34M
Rocky Mountain Equipment	RMEC	$10.91	$11.55	$13.63	$10.37	14.37	39,162	210.74M
Titan Machinery	TITN	$13.65	$14.60	$20.40	$11.85	n/a	191,406	292.29M
Tractor Supply	TSCO	$61.82	$62.12	$78.17	$57.20	25.35	1,469,350	8.51B

U.S. Farm Fleet Got Younger Between 2008-12

One of the questions *Ag Equipment Intelligence* editors get asked on a regular basis is, "How old is the farm equipment fleet in the U.S.?"

Until analysts with RW Baird published their estimates of the age of farm tractors and combines within the last year or so, we hadn't really seen any good estimates. The fact of the matter is there hasn't been a reliable centralized system to track ag machinery. The automobile industry, on the other hand, keeps a tight handle on the age of cars and small trucks on the road, thanks in large part to mandatory vehicle registration for both new and used units.

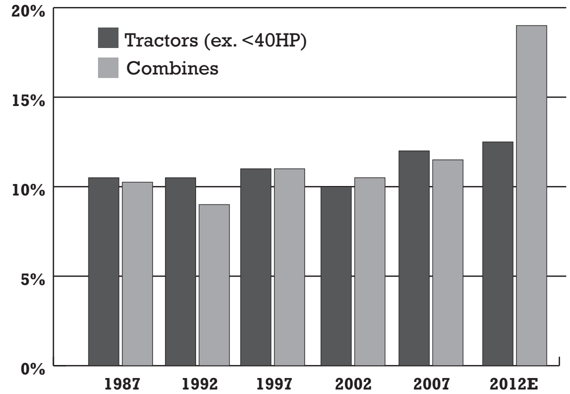
While the pinpoint accuracy of U.S. Ag Census data has often been questioned, it remains the only generally available information out there, so it's pretty hard to argue with. So, using data from the 2012 Ag Census we've been able to update RW Baird's earlier work.

In a January 7, 2014 research report, Baird analysts using their own estimates along with USDA and Assn. of Equipment Manufacturer data, figured the percentage of combines aged 5 years or less had increased to 19% in 2012 from 12% in 2007. Tractors, excluding those with 40 horsepower or less, had increased to 13% from 12%.

Their estimates came several months before the 2012 Ag Census was actually released. In studying the newest Census numbers, *Ag Equipment Intelligence* found that the Baird estimates for tractors was dead on at 12.9%. Their estimates for combines was only slightly higher than what USDA eventually reported — 19% vs. 17%.

The data in the accompanying tables were gleaned from the 2012 Ag Census and the chart is courtesy of RW Baird. An important note from the Baird report that was covered in the January 2014 issue of *Ag Equipment Intelligence* helps to further clarify the tractor situation. It said, "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%." With this being the case, the age of the row-crop and 4WD tractors is probably younger than these numbers indicate. **AEI**

Age of U.S. Tractor & Combines Percentage Less Than 5 Years Old



The percentage of U.S. combines 5 years old or less grew dramatically between 2008-12.

Source: USDA, AEM, Baird Estimates

Value of Machinery & Equipment on Operation — 2012 & 2007

(thousands $)

	2012	2007
Estimated market value of machinery and equipment	**243,966,688**	**194,783,471**
Average per farm…dollars	***115,706***	***88,357***
By value group:		
$1 to $4,999	439,846	525,370
$5,000 to $9,999	1,237,979	1,489,642
$10,000 to $19,999	4,274,788	4,777,255
$20,000 to $29,999	6,086,323	6,531,269
$30,000 to $49,999	10,931,730	11,881,082
$50,000 to $69,999	11,505,908	12,086,691
$70,000 to $99,999	11,631,918	12,244,548
$100,000 to $199,999	28,920,218	30,552,240
$200,000 to $499,999	50,577,905	51,192,883
$500,000 to $999,999	44,354,766	31,708,088
$1,000,000 or more	74,005,308	31,794,404

Selected Machinery & Equipment on Operation — 2012 & 2007

	2012			2007	
	Total Number	Manufactured 2008 to 2012	Manufactured Prior to 2008	Total Number	Manufactured 2003 to 2007
Tractors	4,178,300	494,548	3,683,752	4,389,812	530,102
2 or 3	1,468,568	159,940	1,346,563	1,609,191	156,572
4 or more	2,019,558	89,618	1,675,188	1,978,289	71,172
Less than 40 horsepower (PTO)	1,107,528	98,095	1,009,433	1,280,039	142,117
40 to 99 horsepower (PTO)	1,886,032	205,388	1,680,644	1,998,508	250,743
100 horsepower (PTO) or more	1,184,740	191,065	993,675	1,111,265	137,242
Grain and bean combines, self propelled	346,632	58,301	288,331	346,935	41,420
Cotton pickers and strippers, self-propelled	20,227	3,566	16,661	18,162	4,238
Forage harvesters, self-propelled	72,389	8,692	63,697	64,191	8,381
Hay balers	731,771	79,330	652,441	727,501	87,948

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billion during the first half of last year.

All world regions experienced declines, from South America with a drop of 8% to Asia, with a 35.7% decrease in purchases of U.S.-made agricultural machinery.

At midyear 2014, exports of agricultural machinery to Europe declined 26.9% compared to the first half of 2013, for a total $1.21 billion. Exports to Canada dropped 34.3% to total $1.55 billion. Exports to Asia declined 35.7% to $420.7 million for the first half of 2014. Mid-year exports to Central America decreased 12.5% to $528 million, and exports to South America declined 8% to $528.5 million.

U.S. Crop Exports. The combination of a strong dollar and an oversupply of crops, are expected to affect overall sales of U.S. farm machinery.

USDA's September 11 World Agricultural Supply and Demand Estimates projected even stronger yields for corn and soybeans than its earlier outlook (*see accompanying table*), which had the expected effect of lowering per-bushel pricing of the crops.

Through September 9, year-to-year corn prices were down 24.8%, soybeans were down 25.7% and wheat was down 16.8%. But the strong dollar appears to be offsetting effect of falling prices for U.S. corn, soybeans and other crops.

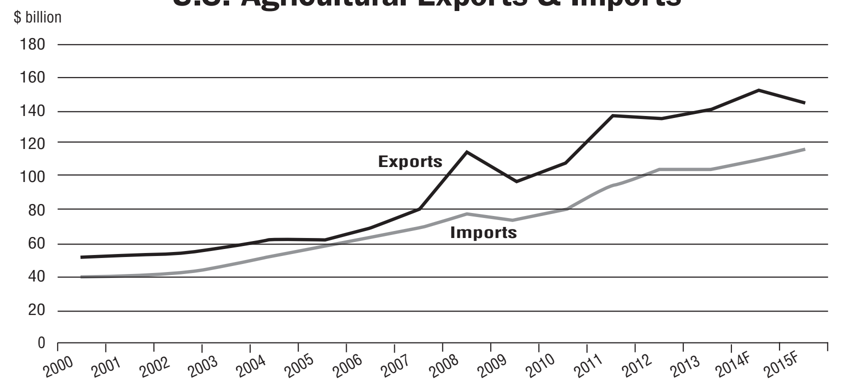
The U.S. ag agency is forecasting that agricultural exports for fiscal 2015 will decline compared to the record exports during fiscal year 2014. According to the August 2014 "Outlook for U.S. Agricultural Trade," fiscal 2015 exports are projected at $144.5 billion, down $8 billion from the record $152.5 billion forecast for fiscal 2014, primarily because of the outlook for lower commodity prices.

Lower prices are projected to reduce fiscal 2015 exports of oilseeds and products by $5.1 billion and cotton by $600 million, while lower prices and volumes reduce grain and livestock feed exports by $4.9 billion, compared with fiscal 2014.

Horticultural exports are, however, projected to rise $2.9 billion to a record $37 billion in fiscal 2015, eclipsing exports of grains and feeds for the first time. At the same time, U.S. agricultural imports are forecast at a record $117 billion in fiscal 2015, $7.5 billion higher than in fiscal 2014.

WASDE & Equipment. Lower prices and exports of U.S. crops will inevitably impact farm equipment sales. In a September 11 note to investors, C. Schon Williams of BB&T Capital Markets, said, "The WASDE report is relevant to ag machinery names in that it helps predict crop cash receipts, the best leading indicator for ag machinery sales. Based on the latest WASDE release, our estimates now indicate that farm cash receipts will be down 15% year-over-year (vs. 10.3% last month) during the 2014-15 growing season." AEI

U.S. Agricultural Exports & Imports



USDA estimates that agricultural exports for fiscal 2015 will decline compared to the record exports of 2014. At the same time, are expected to be $7.5 billion higher than in 2014.

Note: Data for 2014 and 2015 are forecasts; October/September U.S. fiscal years

Source: USDA, Economic Research Service and U.S. Department of Commerce, U.S. Census Bureau.

U.S. CASH RECEIPTS OUTLOOK (MILLIONS)

	WASDE 2013-14 Sept. Est.	WASDE 2013-14 Aug. Est.	WASDE 2013-14 Sept. Est.	Manufactured Year-Over-Year Change
Corn	61,966	54,725	50,383	-18.7%
Wheat	14,6333	12,789	11,977	-18.2%
Soybeans	42,757	39,496	39,130	-8.5%
Total	119,356	107,009	101,490	-15.0%

Source: USDA, BB&T Capital estimates

John Deere's August Sales & Inventories Lower Than Industry

Deere & Co. released its retail sales commentary for August 2014 on August 11. The company reported that industry sales of utility tractors were up 9% for the month; Deere's sales in this category were up more than the industry. Industry wide inventory of utility tractors was 53% of the previous 12 months and Deere's was lower than that of the industry.

For row-crop tractors, industry sales were down 9%; Deere's sales were down less than the industry. Inventory of row-crop equipment was 36% of the previous 12 months; Deere's inventory was lower than the industry.

For 4WD tractors, industry sales were down 37% in August; Deere's sales were down more than the industry. Industry inventory of 4WD equipment was 28% of the previous 12 months; Deere's inventory was lower than the industry.

Industry wide sales of combines were down 24% in August; Deere sales were down more than the industry. Industry wide inventory of combines was 25% of the precious 12 months; Deere's inventory was lower than the industry.

Selected Deere turf and utility equipment sales were down double digits in August. AEI

Precision Hardware Sales Slip as Service/Support Gains

While hardware sales remain the backbone of dealers' precision farming business, as more OEM equipment comes with precision systems factory equipped, more emphasis is being given to the revenue potential of service and support activities. In addition, the results of *Precision Farming Dealer*'s 2014 Benchmark study point to more dealers setting up their precision activities as independent profit centers.

"If dealers continue moving toward independence with their precision business, success will likely depend on launching or broadening service platforms and relying less on hardware sales for the majority their of revenue," says Jack Zemlicka, managing editor of *Precision Farming Dealer*, published by Lessiter Publications.

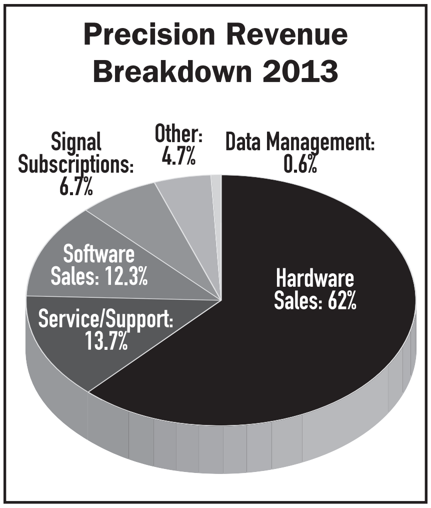
Respondents to the most recent survey say 57.5% of their precision revenue comes from selling hardware, down slightly from 62% in 2013. The most significant revenue growth during the past year came in the areas of service/support sales, from 13.7% in 2013 to 18.9% this year, and data management, from less than 1% last year to 6.8% in 2014.

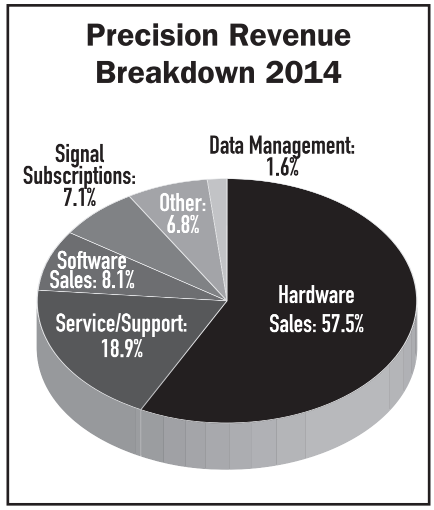
"Although still small percentages compared to hardware, precision service and data management are emerging revenue opportunities dealers will likely continue to incorporate," says Zemlicka. "However, unlike hardware, these areas are still relatively undeveloped in terms of a proven model that guarantees a financial return for the dealership.

"As one Midwest dealer told us, 'There's no industry template for what to charge customers or what services to include. It's kind of up to us to decide what's going to be most successful at our dealership, try it and adapt it.'"

Other revenue sources saw less substantial change, year-to-year, with software sales dropping from 12.3% in 2013 to 8.1% this year, and signal subscriptions increasing from 6.7% last year to 7.1% in 2014.

The full report appears in the fall edition of *Precision Farming Dealer*. AEI





Precision hardware sales are still the main source of revenue for dealers, but service/support and data management are emerging profit opportunities.

Source: Precision Farming Dealer

Maschio Gaspardo Plans Major Manufacturing Expansions After 20% Revenue Gain in 2013

Italy's Maschio Gaspardo group plans to spend €130 million ($177 million) in capital investments over the next 5 years to build on the €120 million ($163 million) investment it has made in the 3 years from 2011 to 2013.

The money will be used to complete start-up operations at the DeWitt, Iowa, facility acquired for planter production and North American sales and parts logistics *(see Ag Equipment Intelligence, May 2014)*, and to fund a new 33,000 square meter production plant in China. There are plans also to add 10,000 square meters of production area to an existing cultivations equipment plant in Romania, and further expand the group's Italian factories.

Expansion of the group-owned overseas sales network and strengthened presence in South America and Africa are also part of the 2014-18 investment plan presented by group President, Egidio Maschio alongside the 2013 annual results.

"With the approval of these plans, we take another fundamental step in our process of growth, showing that we are a global player in the agricultural mechanization sector," he says. "It represents not only a confirmation of our international growth projects, but also a great opportunity to create a stable and profitable future."

Maschio Gaspardo reported a 20% increase in revenues to €282 million ($384 million) for 2013, with a 4% increase in EBITDA to €34.5 million ($47 million), representing a 2.4% EBITDA margin. EBIT amounted to €24.4 million ($33 million) representing 8.7% of turnover, and earnings amounted to €7.2 million ($9.8 million), 2.5% sales gain.

As in previous years, group managers said income will be reinvested to improve the technological and employment development of production plants and support sales network expansion. Maschio Gaspardo took on another 320 employees worldwide in 2013.

Further acquisitions and manufacturing partnerships are also in the cards in the company's 50th year.

So far in 2014, the group has acquired Italian hay tool manufacturer Feraboli to enter this market sector for the first time *(Ag Equipment Intelligence, May 2014)*, and forged partnerships with manufacturers of agricultural trailers and sludge tankers, and drift recovery orchard sprayers to expand its domestic and export product lines. AEI

Ag Equipment Sales Fall Again in August

North American large ag equipment retail sales continued to decline in August, with 4WD tractor sales down 36.8% year-over-year, combine sales down 24.3% and row-crop tractors down 9.3%, according to the latest numbers released by the Assn. Equipment Manufacturers.

Meanwhile, Mircea (Mig) Dobre, analyst with RW Baird said in a note to investors that mid-range tractors continue to show relative strength, increasing 8.7% year-over-year vs. up 7.2% last month. Day-sales inventory rose year-over-year across all equipment categories except compact tractors.

• U.S. and Canada large tractor and combine retail sales decreased 17% year-over-year in August, down from the 10% decrease in July. U.S. sales were down 19%, while Canadian sales were down just 1%.

• Combine retail sales also fell, posting a 24.3% year-over-year decrease in August following a 30.1% decrease the previous month. U.S. combine inventories were 2.6% lower year-over-year in July vs. down 1.2% last month. Typically, August is an above-average month for combine sales, accounting for 12.3% of annual sales over the last 5 years.

• Row-crop tractor sales were down as well with a 9.3% decrease vs. the same period last year. This is down from the 1.8% increase seen in July. U.S. row-crop tractor inventories were up 5.9% year-over-year in July vs. a 10.9% increase in June. August is typically a below-average month for row-crop tractor sales, accounting for 6.5% of annual sales over the last 5 years.

• 4WD tractor sales declined 36.8% year-over-year in August vs. a 20.8% drop in July. U.S. dealer inventories of 4WD tractors decreased 3.4% year-over-year in July.

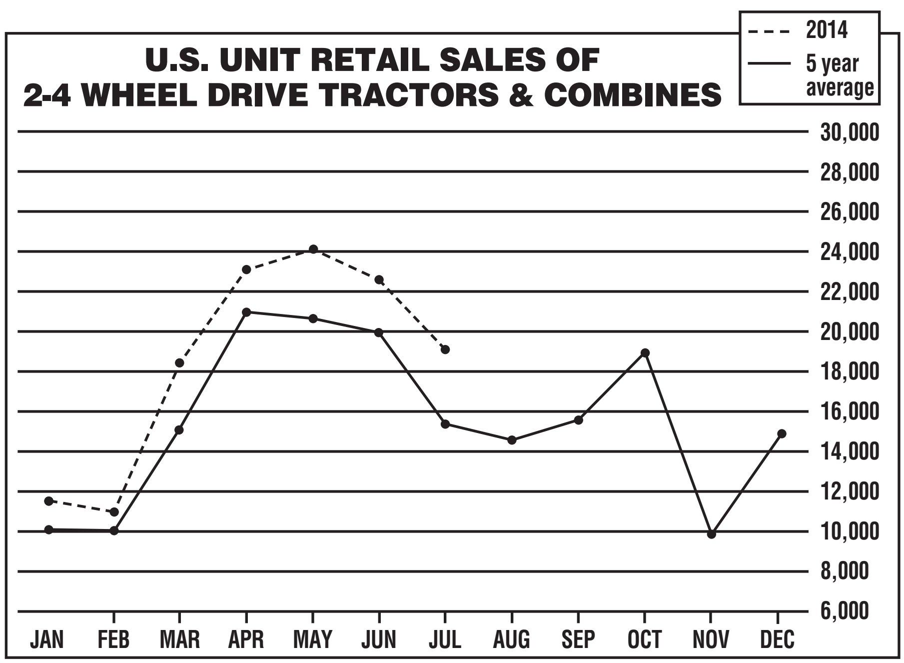
• Mid-range tractor sales saw an improvement in August, up 8.7% year-over-year after a 7.2% increase in the previous month. Compact tractor sales increased 3.5% year-over-year, down slightly from the 4.7% increase last month. **AEI**

AUGUST U.S. UNIT RETAIL SALES

Equipment	August 2014	August 2013	Percent Change	YTD 20 14	YTD 2013	Percent Change	July 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	8,682	8,309	4.5	77,982	73,347	6.3	55,206
40-100 HP	4,998	4,608	8.5	39,380	37,616	4.7	30,448
100 HP Plus	2,255	2,539	-11.2	20,682	22,683	-8.8	12,077
Total-2WD	15,935	15,456	3.1	138,044	133,646	3.3	97,731
Total-4WD	333	532	-37.4	3,511	4,104	-14.4	1,558
Total Tractors	16,268	15,988	1.8	141,555	137,750	2.8	99,289
SP Combines	730	1,024	-28.7	5,510	6,661	-17.3	2,078

AUGUST CANADIAN UNIT RETAIL SALES

Equipment	August 2014	August 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	July 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	1,009	1,050	-3.9	9,218	9,363	-1.5	6,623
40-100 HP	446	398	12.1	4,011	3,794	5.7	3,945
100 HP Plus	320	301	6.3	3,425	3,388	1.1	2,759
Total-2WD	1,775	1,749	1.5	16,654	16,545	0.7	13,327
Total-4WD	38	55	-30.9	735	967	-24.0	601
Total Tractors	1,813	1,804	0.5	17,389	17,512	-0.7	13,928
SP Combines	216	226	-4.4	1,231	1,645	-25.2	1,066



— Assn. of Equipment Manufacturers

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release. "This has impacted farmers' sentiment and resulted in lower farmer spending for equipment as well as more cautious spending on parts and services. While this impacted our financial results in the quarter, we remain confident in our business model as well as the long-term agriculture industry outlook as farmers continue to carry strong balance sheets and the underlying demand for commodities rebuilds."

Titan management trimmed its estimate for full year revenues to $1.9-$2.1 billion, from $1.95-$2.15 billion.

Inventory & Cash. Meyer told *Ag Equipment Intelligence* that the company is on track with its targets of reducing equipment inventories and increasing cashflow.

During the conference call with analysts, Mark Kalvoda, Titan CFO, reported that the company ended the second quarter with equipment inventory of $996.3 million, "Our second quarter ending inventory is up slightly, which is consistent with our expectations stated on our last call. As a result of our equipment inventory reduction plan this year, we are modeling a decrease in our third quarter inventory level compared to last year's third quarter inventory increase. To achieve this year's target we have reduced our current orders for equipment from suppliers by approximately $400 million compared to this time last year. This is the primary driver of our inventory reduction in the back half of this year."

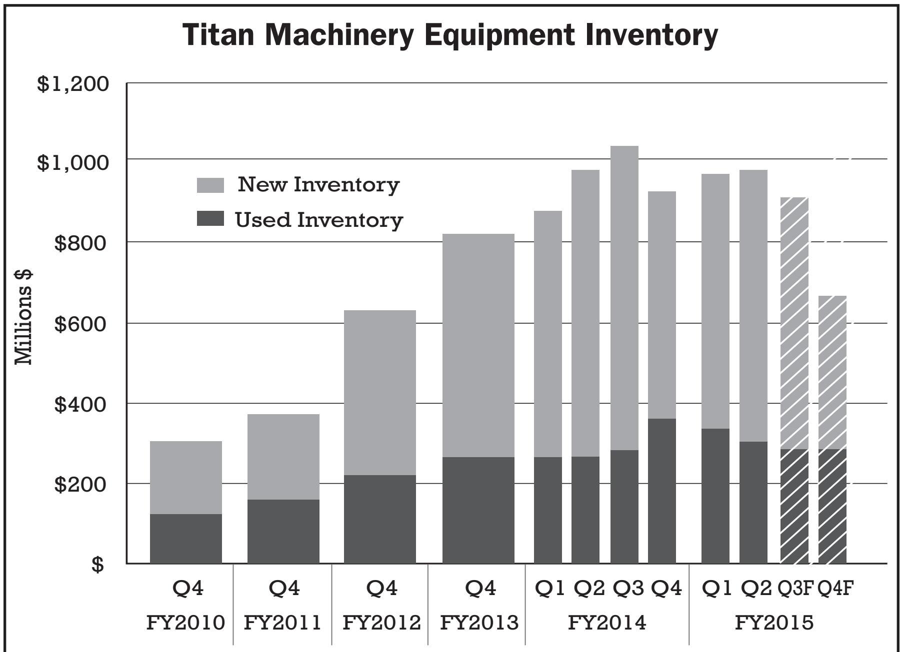
Kalvoda also forecast cash generation from operations for the current fiscal year of $50-$70 million. "Our planned decrease in inventory and expected increase in cashflow over the second half of the year will continue to strengthen our financial position with our lenders," he said.

International Hurdles. Flooding in Bulgaria and the political instability in the Ukraine also impacted Titan's second quarter earnings. Peter Christianson, Titan's president, told analysts, "In Ukraine, the current geopolitical and financial turmoil is negatively impacting our customers and our operations. Limited credit availability, rising interest rates and the devaluation of the local currency are affecting all businesses throughout the country. Although the Ukrainian farmers have a decent crop coming this year, they are limited in their ability to finance purchases of equipment."

Christianson said that Titan is implementing more stringent inventory management procedures throughout the company's European operations. "We're standardizing our machine specifications, which will enable us to better leverage our inventory across our European markets. We are delaying any further shipments of unsold equipment into the Ukrainian market given the environment in this region.

"In addition to lowering our inventory levels with improved inventory management, we plan to further reduce floorplan interest expense by implementing an Austrian equipment inventory warehousing program. This will allow us to decrease finance cost vs. in-country inventory financing for countries that have higher financing cost compared to Austria," said Christianson.

He added that Titan expects to increase its parts and service business as it implements "our western style of after sales product support and customers become more aware of our level of support."



This chart outlines Titan Machinery's equipment inventory position for the past 5 years. On the right side of the graph is the targeted year-end equipment inventory for fiscal 2015 representing a $250 million reduction, excluding acquisitions and new store openings compared to the end of the fiscal year of 2014.

Source: Titan Machinery

Analysts' Comments. In a note, Mircea (Mig) Dobre, analyst for RW Baird, said, "Titan continues to target ~$250 million in inventory reduction by the end of FY15, and is tracking on target YTD. In spite of improved equipment gross margin performance in the 2Q15 (8.5% vs. 8.2% in the 2Q14), Titan lowered its equipment gross margin expectation to 8.1-8.6%, noting that margin performance could be impacted by competitive pricing associated with the achievement of inventory reduction goals."

Brent R. Rystrom, analyst with Feltl and Co., said in a note, "Titan Machinery is emerging as one of the dominant participants in the farm and construction machinery and equipment retailing business, an industry that generated near $105 billion in revenues in 2011. With sales of $2.198 billion in fiscal year ended January 2013, Titan's growth opportunities are clearly substantial. We rate Titan a BUY and our $23.20 target assumes a multiple of 1.2 times book value of $19.35." AEI