

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

- CNHI, AGCO in China
- Kubota Goes Big
- AGCO-TAFE Deal

Half of North American Dealers See Sales Revenues Declining in 2015

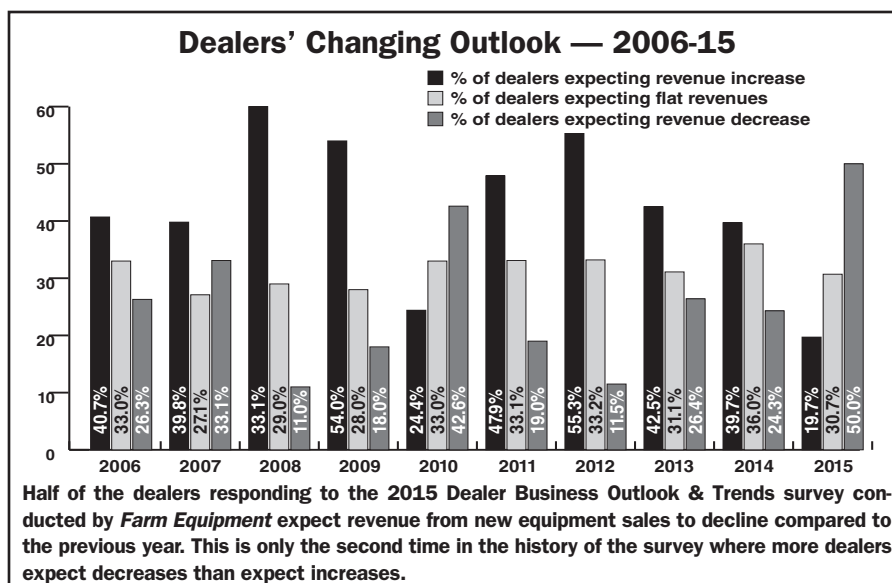
Farm equipment dealers in the U.S. and Canada are gearing up for a slow-down in new ag machinery in the year ahead. The dealers' outlook for used equipment is only slightly more upbeat. Between the two countries, Canadian dealers are decidedly more optimistic about their prospects in 2015 than are their U.S. counterparts.

Half of the 301 North American farm equipment dealers responding to *Ag Equipment Intelligence's* "2015 Dealer Business Outlook & Trends" survey expect sales revenues to decline in the year ahead compared with 2014. Only 19.3% of dealers are projecting new equipment revenues to come in higher than what they saw in 2014.

The last time a larger percentage of dealers expected sales to fall than to rise was in 2010 following the economic crisis brought on by the collapse of the U.S. housing market, which took most of the economy down with it. This time around, the falloff in equipment sales is largely the result of declining crop prices, though other factors are also contributing to an overall slowdown.

The outlook for the years 2010 and 2015 represent the two least optimistic forecasts during the 10 years *Ag Equipment Intelligence* has surveyed dealers in the U.S. and Canada.

Despite a similar tenor to the sentiments expressed about their sales prospects in 2010 and 2015, fewer dealers, 19.3%, believe sales revenues will increase in the year ahead than they did 5 years earlier, when 24.4% forecasted growth. At the same time, more dealers expect a dropoff in 2015 (50%) compared with 2010



(42.6%). As has typically been the case over the 10 years we've conducted this survey, about one-third of dealers (30.7%) are calling for little or no change in the next year vs. the previous year.

In its latest dealer poll, UBS Investment Research produced similar results to those of *Ag Equipment Intelligence's*. In that August report, analyst Steven Fisher remarked, "Dealers are largely neutral on their business conditions. On a scale of 0-10, dealers responded with an average of 6.24, indicating a largely neutral perspective on their business conditions. We believe this may indicate that dealers have been preparing for an eventual downturn in demand, and may also be a reflection of recent consolidation among dealers; larger scale and thus better equipped to handle a downturn."

2015 New Equipment Revenues

Comparing dealers' sentiments

from a year ago shows a significant shift in how they view the year ahead. Last year at this time, 75.7% of dealers expected sales of new farm machinery to be better than or as good as those in 2013, with the remaining 24.3% projecting decreased sales revenues. This year, it's an even 50/50 split with 50% forecasting revenues will be as good as or better than what they saw in 2014 and 50% predicting sales revenue will decline in 2015.

A year ago, of the 75.7% of dealers with a positive or neutral outlook, 39.7% anticipated revenue increases. In this group, 6.6% forecast growth to be 8% or more, while 33.1% projected increases of 2-7%. For those 24.3% who projected declining revenues for 2014, 5.5% projected decreases of 8% or more and 18.8% estimated revenues would fall by 2-7%.

Looking ahead to 2015, of the 50% of dealers who anticipate increased

Continued on page 8

CNH and AGCO Continue Moving Forward in China

As ag equipment manufacturers continue to place big bets on the Chinese market, the opening by CNH Industrial of a \$100 million tractor and harvester factory has coincided with AGCO's big venture in China bearing fruit with the launch of a new global tractor family.

The new CNH plant is believed to be the biggest in northeast China. It will produce tractors, including New Holland T6000 and T7000 units, Case IH Axial-Flow combines and a line of Case IH corn pickers developed for the Chinese market. Hay tools including balers are also in the product mix.

"CNH Industrial has a strong and long standing relationship with China; through our agricultural equipment brands we have been present in this country for more than 100 years," says Richard Tobin, CNH Industrial CEO. "Our new manufacturing complex in Harbin marks an important milestone that confirms our commitment to the development of Chinese agriculture."

The new plant, which is in the same area as CNH's previous facility, is vertically integrated and features what CNH describes as the latest technology in fabrication and state-of-

the-art painting facilities.

Automated guided vehicles are used for the assembly and testing of finished products and the site houses an engineering team tasked with designing components adapted for the Chinese market, as well as an R&D center with dedicated outdoor test track.

AGCO in China. AGCO's Changzhou factory is another new development — and it has just started building the first models of a new "common platform" tractor.

The Centurion project was exclusively revealed in *Ag Equipment Intelligence* in January 2011. It will rationalize AGCO's mid-range products from 60-130 horsepower across more than one brand but in particular will reinforce Massey Ferguson's position in the utility tractor sector.

"Designed from the outset for worldwide distribution, the new Global Series will offer an array of specifications, options and features to suit customers no matter where in the world they farm," says Richard Markwell, Massey Ferguson vice president and managing director Europe/Africa/Middle East. "This is the largest manufacturing and new product develop-

ment project in the history of AGCO and signals the biggest extension to our tractor lineup for many years."

Multi-national engineering teams worked on a clean-sheet design — around 90% of the components are said to be new — with a brief to take the concept of the utility tractor and re-engineer it from the ground up.

Developing a common product for flexible worldwide production will maximize economies of scale. While the new state-of-the-art factory in Changzhou is the anchor facility for both tractor manufacturing and the supply of major components, assemblies and complete tractors will also be produced and assembled at AGCO plants in Brazil, India and Turkey.

The project, which has involved more than 6 years of R&D and a \$350 million investment, is this year expected to incur around \$10 million in expenses associated with the Changzhou site, manufacturing startup and market support costs for AGCO's China operations.

The complete Global Series family will be phased in over the next 5 years, starting with the 62-82 horsepower MF 2700 and MF 4700 Series. **AEI**

European Consolidation Continues with Dewulf-Miedema Acquisition

Consolidation among European potato and vegetable equipment manufacturers continues with Belgian harvester manufacturer Dewulf reaching a preliminary agreement to purchase Miedema, a Netherlands-based maker of field and storage equipment.

Dewulf sales and marketing director Karel Decramer says the combined business will be the second largest in the sector (after Grimme) and capable of supplying from one source complete solutions for potato production and storage worldwide, including electronically-controlled grading systems.

The acquisition plan is for Miedema to become a subsidiary of Dewulf, with current management remaining 28% shareholders of the business to ensure continuity. Development and production will also remain with Miedema, but synergies with the parent company would be sought primarily in sales, marketing and purchasing.

Miedema has 111 employees producing structural potato planters, grading equipment, cultivators and in-store handling equipment, including elevators, conveyors and box tipplers. It names TIP Inc. in Wisconsin as its

U.S. dealer. Its Canadian dealers are Agriveg, Ontario; Banga's Equipment, Alberta; Valley Sales & Services in New Brunswick and Machinerie Del Mont Guay, Quebec. Dewulf, which is represented in Canada by R&W Equipment Ltd., Cookstown, Ontario, claims turnover equivalent to more than \$55 million, employs 150 people and specializes in self-propelled potato and carrot harvesters.

Output from production sites in Belgium and Romania is typically 300 harvesters a year, delivered to 37 countries, says the company. **AEI**

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India's TAFE Agrees Not to Acquire More Than 12.5% of AGCO Stock

The CEO of India's second largest tractor manufacturer, TAFE (Tractor and Farm Equipment Ltd.), who is AGCO's largest shareholder, has reached an agreement with AGCO that would limit her stake in the world's third largest ag equipment maker.

According to a September 3 report in the *Atlanta Business Chronicle*, as of August 29, when AGCO reached an agreement with Mallika Srinivasan, CEO of TAFE, she owned an estimated 8 million shares, or 8.6%, of AGCO's stock. In the deal, TAFE, Srinivasan and their affiliates agreed not to increase their holdings beyond 12.5% of AGCO.

The newspaper reported that TAFE is permitted under the agreement to make a non-public offer to AGCO Chairman Martin Richenhagen and AGCO's board "to acquire all or a part of the Issuer [AGCO] or propose another similar strategic transaction that would result in a change of con-

trol of the Issuer."

AGCO has agreed "to promptly inform TAFE of any offer to acquire all or substantially all of the Issuer, or other similar strategic transaction that would result in a change of control of the Issuer, submitted to the Board for formal consideration or which the Board has requested management to evaluate before consideration, and any commencement of a review of strategic alternatives which includes a possible sale of all or substantially all of the Issuer, and permit TAFE the opportunity to make a private offer to acquire all or substantially all of the Issuer, or other similar strategic transaction that would result in a change of control of the Issuer."

The paper goes on to say, TAFE would be released from the restrictions in the agreement with AGCO if AGCO publicly announces a review of its strategic alternatives which includes a possible sale of all or sub-

stantially all of the company or if any person commences a public tender offer for AGCO.

Since reaching agreement with AGCO and as of October 3, TAFE has invested another \$44 million into AGCO stock and remains the company's largest shareholder.

The *Atlanta Business Chronicle* noted that *Fortune* magazine in a September 18 report referred to Srinivasan as "one of the most powerful women in the Asia-Pacific area."

The magazine also said that Srinivasan's long-term strategic alliance with AGCO "has helped TAFE become India's largest exporter of tractors. The President of India honored her this year with the Padmashri, one of the highest civilian awards, for her contribution to trade and industry."

On October 7, AGCO announced that it plans to scale back production and costs because of weak sales across all of its regions.

AEI

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

| MANUFACTURERS | Symbol | 10/10/14 Price | 9/11/14 Price | 1-Year High | 1-Year Low | P/E Ratio | Avg. Volume | Market Cap. |
|--------------------------|--------|----------------|---------------|-------------|------------|-----------|-------------|-------------|
| Ag Growth Int'l. | AFN | \$44.60 | \$45.70 | \$49.44 | \$36.16 | 20.32 | 27,478 | 583.88M |
| AGCO | AGCO | \$42.08 | \$47.14 | \$64.60 | \$41.83 | 7.71 | 1,516,050 | 3.95B |
| AgJunction Inc. | AJX | \$0.62 | \$0.65 | \$1.20 | \$0.55 | 62.00 | 65,462 | 44.82M |
| Alamo | ALG | \$38.33 | \$45.51 | \$61.27 | \$38.32 | 13.89 | 34,240 | 465.63M |
| Art's Way Mfg. | ARTW | \$5.04 | \$5.10 | \$6.92 | \$4.76 | 102.86 | 8,403 | 20.40M |
| Blount Int'l. | BLT | \$14.09 | \$15.86 | \$16.66 | \$10.84 | 77.42 | 264,038 | 697.07M |
| Buhler Ind. | BUI | \$5.36 | \$5.60 | \$7.30 | \$5.36 | 10.51 | 1,005 | 134M |
| Caterpillar | CAT | \$93.13 | \$105.59 | \$111.46 | \$81.87 | 15.54 | 4,653,220 | 58.47B |
| CNH Global | CNHI | \$7.46 | \$8.19 | \$12.97 | \$7.45 | 9.08 | 1,185,780 | 10.10B |
| Deere & Co. | DE | \$80.98 | \$82.08 | \$94.89 | \$78.88 | 9.10 | 3,792,220 | 29.02B |
| Kubota | KUBTY | \$69.65 | \$73.24 | \$87.15 | \$62.95 | 14.06 | 24,488 | 17.41B |
| Lindsay | LNN | \$76.64 | \$76.15 | \$92.93 | \$71.13 | 19.55 | 150,608 | 975.55M |
| Raven Industries | RAVN | \$22.58 | \$26.66 | \$42.99 | \$22.13 | 21.10 | 108,031 | 824.01M |
| Titan Int'l. | TWI | \$9.61 | \$13.88 | \$19.89 | \$9.60 | n/a | 551,898 | 515.07M |
| Trimble Navigation | TRMB | \$27.79 | \$32.90 | \$40.17 | \$27.58 | 28.04 | 1,547,560 | 7.22B |
| Valmont Industries | VMI | \$131.93 | \$139.72 | \$163.23 | \$129.00 | 15.36 | 329,968 | 3.456B |
| RETAILERS | | | | | | | | |
| Cervus Equipment | CVL | \$18.45 | \$19.74 | \$24.50 | \$18.45 | 14.08 | 14,689 | 280.72M |
| Rocky Mountain Equipment | RMEC | \$10.35 | \$10.91 | \$13.63 | \$10.25 | 13.62 | 39,394 | 199.92M |
| Titan Machinery | TITN | \$13.49 | \$13.65 | \$20.40 | \$11.85 | n/a | 210,686 | 283.10M |
| Tractor Supply | TSCO | \$57.15 | \$61.82 | \$78.17 | \$57.14 | 23.43 | 1,498,580 | 7.87B |

Kubota Unveils New, Bigger Tractors and Brand Strategy

And so the fun begins! Kubota has publicly begun its attempt to wrest a share of the mid- to upper horsepower tractor market from established players in Europe, while also declaring its intention that “Kubota” will become the future brand for its field equipment lines.

Disneyland Paris, the venue for the Japanese manufacturer’s first European Agri dealer convention, may be a fun place to visit, but there is no doubting that Kubota is deadly serious about its move into mainstream “dry land” agriculture.

The mid-September event presented a very complete and well equipped 130-170 horsepower tractor design, which will be produced in a new factory in northern France starting in the second quarter of 2015.

Kubota also demonstrated to its dealers its longer term single-brand strategy by showing a complete range of Kverneland and Vicon tillage and hay equipment with unequivocal Kubota branding.

As dealers anticipate discussions with major suppliers who have “tolerated” dealers handling Kubota’s compact and lower horsepower ag tractors, the message was clear: Kubota

is about to become a full-line manufacturer with competitive tractors and one of the most comprehensive equipment lines of any full-liner.

It was the vision of the late Yasuo Masumoto, chairman and CEO, until his sudden death in June this year that started the ball rolling. He recognized that with Kubota having already achieved strong positions in compact tractor markets and the paddy rice farming sector in Asia, the only source of significant growth would come from the grain and livestock sectors across Europe, North America and Australasia.

He failed to find a suitable acquisition or partner for bigger tractors so the Kubota board signed off plans to invest in its own new tractor range, and then really set the project in motion by securing Norway’s Kverneland Group, the world’s second-largest manufacturer of field implements.

The 2012 acquisition of Kverneland brought a comprehensive range of hay tools and tillage implements into the Kubota fold, which not only contributes upward of \$1 billion in revenues but will be strategically important in securing a distribution network in tillage farming areas where Kubota is less well represented.

In addition, Kubota has discovered a gem in Kverneland’s in-house mechatronics division. It has pioneered Isobus control of implements, and more recently developed a number of precision farming programs, and will now supply its attractive touchscreen IsoMatch Tellus terminal to the factory in France.

The company’s new M7 tractors can be had with this technology from the outset.

The tractors themselves draw on Kubota’s engine expertise in the shape of a 6.1-liter 4-cylinder diesel developing 130, 150 and 170 horsepower at the flywheel, and ZF’s transmission expertise for proven semi-powershift and stepless drivelines.

A spacious cab, styling in tune with European and North American tastes and a wide choice of features and specifications complete Kubota’s ambitious package.

The Disneyland Agri Convention brochure declares that 2015 will be the year of Kubota, when broadened ranges and new synergies will mark a turning point for the corporation in Europe. And, no doubt, the year when the new full-line manufacturer takes its growth project into North America. **AEI**

How Will Dealers Fare During Full-Year 2014?

Nearly one-half of North American farm equipment dealers are expecting that full-year revenues from the sale of new equipment in 2014 will be down vs. 2013. This is about the same percentage who are projecting declining revenues in the year ahead.

Of the 285 dealers who responded to the question, “What is your best estimate of your 2014 new equipment revenue vs. 2013 new equipment revenue?” in *Ag Equipment Intelligence’s* 2015 Dealer Business Outlook & Trends survey, 34.4% reported that by year-end they expect their new equipment revenues to have increased vs. 2013.

Of the remaining dealers, 17.2% say there will be little or no change this year compared with the previous year, and nearly half, or 48.4% antici-

pate lower revenues in 2014 compared to 2013.

Last year at this time, 39.7% of dealers were forecasting a dropoff in new equipment revenues for full-year 2014. The percentage of dealers’ whose current estimate for a revenue increase isn’t too far off their outlook for last year at 34.4%.

The big difference comes in dealers who now estimate that new equipment revenues will decrease for 2014 vs. their forecast a year ago.

In September 2013, only 24.3% of dealers projected lower revenues for 2014. With this year’s survey, nearly double that number, 48.4%, are estimating declining new equipment rev-

| Revenue % increase/decrease | Current Estimate for 2014 | Last Year’s Projections for 2014 |
|-----------------------------|---------------------------|----------------------------------|
| +8% or more | 11.2% | 6.6% |
| +2-7% | 23.2% | 33.1% |
| Little or no change | 17.2% | 36.0% |
| -2-7% | 23.5% | 18.8% |
| -8% or more | 24.9% | 5.5% |

enues for the full year 2014.

Of course, the wide difference between the two comes in the “little or no change category.” A year ago, 36% of dealers in the survey projected essentially “flat” new equipment revenues. At this point, as dealers have far more visibility into the current year’s results, only 17.2% expect “little or no change” for all of 2014. **AEI**

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 invested 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). It will also fund a new 33,000 square meter manufacturing plant in China, add 10,000 square meters of production area to an existing tillage equipment plant in Romania, and further expand the group's factories in Italy.

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 mil-

lion), a 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 added 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). It also forged partnerships with manufacturers of agricultural trailers and sludge tankers, and drift recovery orchard sprayers to expand its domestic and export product lines. **AEI**

Looking for Overseas Growth, Polaris Opens Polish Plant

Polaris Industries Inc., (NYSE: PII) has opened its first factory in Europe to manufacture sports and utility quad bikes, Ranger side-by-side off-road vehicles and RZR high-speed all-terrain sports vehicles as a major initiative to increase sales.

The new facility represents a \$30 million investment according to news reports in Poland, where the 345,000 square foot plant has been built in a part of the country designated for economic growth.

"With our engineering and manufacturing assets in Poland, we will be able to develop and manufacture products specifically for the European, Middle East and African markets," says Suresh Krishna, Polaris vice president for the region. "It will reduce the order lead time for our customers and enable us to provide better customer service. We also have opportunities to source more of our component parts locally."

Off-road vehicles account for almost 70% of Polaris' \$3.2 billion in annual revenues. More than three-quarters of the total is generated in

the U.S., with Canada contributing an additional 14%. The corporation wants to raise revenues from outside North America to a third of the total.

"The Opole facility in Poland is a cornerstone for our international growth plans," says Scott Wine, chairman and CEO. "It provides both a timely capacity increase and a localized manufacturing presence that allows us to provide the best possible experience for our customers across Europe, the Middle East and Africa."

While there is growing recreational

use in Europe of the off-road vehicles that Polaris makes, there is a much greater emphasis on utility roles. In Britain and Ireland, gamekeepers on sporting estates use quads and side-by-side vehicles like the Ranger extensively, while stockmen on livestock farms as a low-impact run-about. This trend is also growing in countries such as France.

The new factory will build 35 different off-road vehicles, with first shipments scheduled for the first quarter 2015. **AEI**

WASDE: More Pressure on Crop Receipts

"The October WASDE report indicates increased production for corn, wheat and soybeans, along with a reduced pricing outlook for corn. USDA estimates imply 2014-15 cash crop receipts will now decline 16.6% year-over-year, moving lower compared to the September estimate, and continues to support our negative outlook on ag machinery demand," C. Schon Williams, analyst for BB&T Capital Markets, said in an October 10 note to investors.

With the October World Agricultural Supply and Demand Estimates report, USDA lowered the season average price of corn by \$0.10 on both ends to a new range of \$3.10-\$3.70 per bushel from \$3.20-\$3.80. Soybean pricing remained steady in the \$9-\$10 range per bushel. The projected average for wheat narrowed to \$5.55-\$6.25 a bushel from \$5.50-\$6.30 in September. **AEI**

Kubota, Independent Dealers Most Optimistic for 2015

For *Ag Equipment Intelligence's* 2015 Dealer Business Outlook & Trends survey, Kubota and independent dealers, those not carrying any of the major brands, are at the top of this year's "most optimistic" list. At the other end of the "optimism" scale are Case IH and John Deere dealers.

Overall, 52% of Kubota dealers are forecasting a pick up in revenues in 2015, 4% are looking for gains of 8% or more and 48% see increases of 2-7%. Only 8% of Kubota dealers are

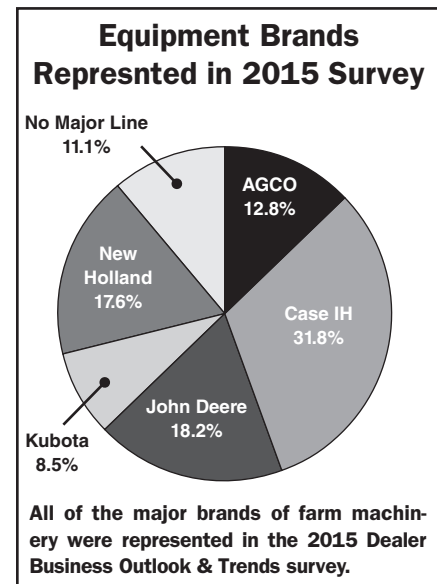
projecting lower revenues in 2015. Of the independent dealers in this year's survey, 44.8% are forecasting increased revenues; 6.9% see growth of 8% or more, while 37.9% anticipate increases ranging from 2-7%.

Only 4.4% of Case IH dealers are looking at revenue growth in the year ahead; 1.1% expect revenues to rise by 8% or more, and another 3.3% anticipate increases of 2-7%. Less than 15% of John Deere dealers are forecasting a revenue increase for the

year; 4.2% project growth of 8% or more, while 10.4% expect an increase of 2-7%.

AGCO and New Holland dealers occupy the middle ground this year, with 21% of AGCO dealers and 17.6% of New Holland dealers anticipating increased revenues in 2015. **AEI**

| Dealer Projections for New Equipment Sales Revenues by Major Line Carried — 2015 | | | | | |
|--|---------------|---------|------------------|-----------|-----------------|
| Mainline | Up 8% or More | Up 2-7% | Little/No Change | Down 2-7% | Down 8% or More |
| AGCO | 2.6% | 18.4% | 31.6% | 29.0% | 18.4% |
| Case IH | 1.1% | 3.3% | 25.2% | 36.3% | 34.1% |
| John Deere | 4.2% | 10.4% | 20.8% | 33.3% | 31.3% |
| Kubota | 4.0% | 48.0% | 40.0% | 8.0% | 0.0% |
| New Holland | 3.9% | 13.7% | 43.1% | 21.6% | 17.7% |
| Independent | 6.9% | 37.9% | 31.0% | 17.2% | 6.9% |



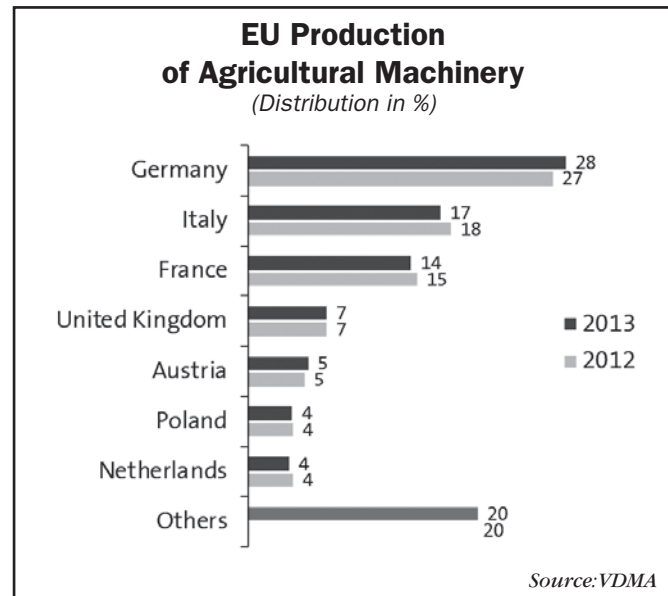
Italian Tractor Makers Say Emission Requirements Will Cripple the Industry

The manufacturers of "narrow track" tractors in Italy are appealing to the European Parliament to reduce the emission requirements on the equipment or "risk the relocation of domestic manufacturers to the countries taking in their exports to concentrate their business in the sector there."

Massimo Goldoni, president of FederUnacoma, which represent Italian agricultural equipment manufacturers met with the European Parliament to discuss the plight of the industry in late September. Goldoni told the Parliament that sales of Italian equipment is currently at historic lows and the emission requirements are reducing profits and eroding the production capabilities of Italian agriculture and weakening its efforts to mechanize the market.

According to a release from FederUnacoma, "qualified federation experts explained that using technologies now available to install devices for the recirculation of exhaust gas on what are called "narrow track tractors" for compliance with the upcoming Phase IV requirements would come as an insurmountable obstacle from a technical point of view and would totally alter the narrow tractor type making it no longer capable of meeting the special requirements of operations in fruit orchards and vineyards."

They went on to say that unless the Commission steps in with measures to extend the deadline for the application of the regulations — now set at 2017 for Phase IV with 2020 tentatively set for the introduction of Phase V — "a



substantial part of the Italian industry will inevitably be thrown out of the market."

Italy is Europe's second largest producer of farm machinery, behind Germany, with a strong focus on manufacturing tractors, mainly under 100 horsepower. In 2013, Italy's sale of tractors amounted to €1.9 billion and 19,017 units. **AEI**

Sales Decline Slowed in September

North American large ag equipment retail sales declines slowed in September (likely due to easier comps), with 4WD tractor sales down 13.8% year-over-year (down 36.8% last month), combine sales down 11.4% (down 24.3% last month), and row-crop tractors down 2.4% (down 9.3% last month), according to the latest numbers released by the Assn. of Equipment Manufacturers.

Mircea (Mig) Dobre, analyst with RW Baird, said in a note to investors that mid-range tractors continue to show relative strength, increasing 28.1% year-over-year (up 8.7% last month). Day-sales of inventory rose year-over-year across all equipment categories except 4WD tractors.

- U.S. and Canada large tractor and combine retail sales decreased 6% from last year in September, improving from the 17% decrease in August. U.S. sales decreased 10% year-over-year, while Canadian sales increased 23%.

- Combine retail sales fell, posting an 11.4% year-over-year decrease in September following a 24.3% decrease the previous month. U.S. combine inventories were 2.3% higher year-over-year in absolute terms in August vs. down 2.6% last month. September is typically an above average month for combine sales, accounting for 12.3% of annual sales over the last 5 years.

- Row-crop tractor sales posted a 2.4% year-over-year decline, up from the 9.3% decrease observed in August. U.S. row-crop tractor inventories were up 0.3% from last year in August vs. a 5.9% increase in July. September is typically an average month for row-crop tractor sales, accounting for 8.3% of annual sales over the last 5 years.

- 4WD tractor sales declined 13.8% year-over-year in September compared to a 36.8% decrease last month. U.S. dealer inventories of 4WD tractors decreased 7.5% year-over-year in August.

- Mid-range tractor sales rose in September, up 28.1% year-over-year after an 8.7% increase last month. Compact tractor sales also increased, up 31.9% from last year vs. the 3.5% increase last month.

AEI

SEPTEMBER U.S. UNIT RETAIL SALES



| Equipment | September 2014 | September 2013 | Percent Change | YTD 2014 | YTD 2013 | Percent Change | August 2014 Field Inventory |
|-------------------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------------------|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 10,100 | 7,697 | 31.2 | 88,058 | 81,044 | 8.7 | 55,789 |
| 40-100 HP | 5,646 | 4,400 | 28.3 | 45,012 | 42,014 | 7.1 | 31,486 |
| 100 HP Plus | 2,774 | 2,968 | -6.5 | 23,442 | 25,649 | -8.6 | 12,131 |
| Total-2WD | 18,520 | 15,065 | 22.9 | 156,512 | 148,707 | 5.2 | 99,406 |
| Total-4WD | 415 | 526 | -21.1 | 3,926 | 4,630 | -15.2 | 1,591 |
| Total Tractors | 18,935 | 15,591 | 21.4 | 160,438 | 153,337 | 4.6 | 100,997 |
| SP Combines | 867 | 1,027 | -15.6 | 6,375 | 7,688 | -17.1 | 2,274 |

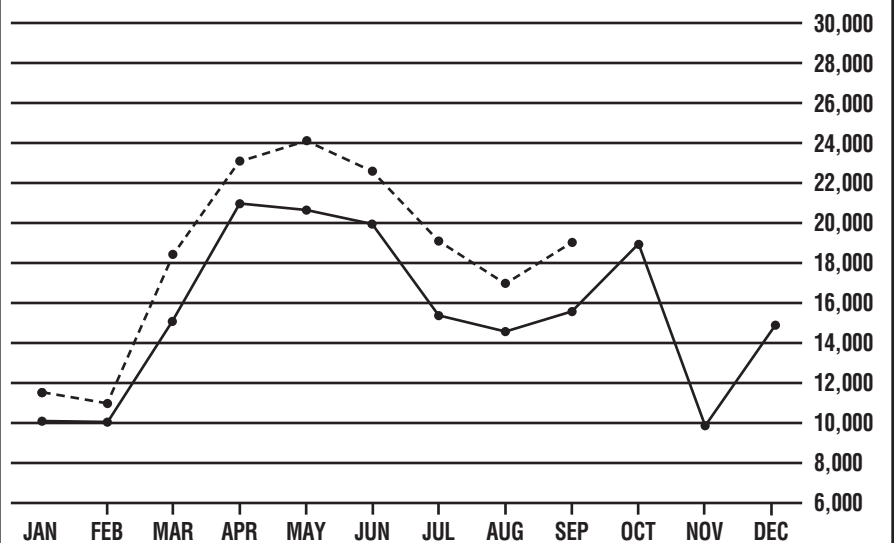
SEPTEMBER CANADIAN UNIT RETAIL SALES



| Equipment | September 2014 | September 2013 | Percent Change | YTD 2014 | YTD 2013 | Percent Change | August 2014 Field Inventory |
|-------------------------|----------------|----------------|----------------|---------------|---------------|----------------|-----------------------------|
| Farm Wheel Tractors-2WD | | | | | | | |
| Under 40 HP | 1,233 | 898 | 37.3 | 10,441 | 10,261 | 1.8 | 6,677 |
| 40-100 HP | 547 | 434 | 26.0 | 4,534 | 4,228 | 7.2 | 4,206 |
| 100 HP Plus | 502 | 388 | 29.4 | 3,926 | 3,777 | 3.9 | 2,929 |
| Total-2WD | 2,282 | 1,720 | 32.7 | 18,901 | 18,266 | 3.5 | 13,812 |
| Total-4WD | 77 | 45 | 71.1 | 812 | 1,012 | -19.8 | 602 |
| Total Tractors | 2,359 | 1,765 | 33.7 | 19,713 | 19,278 | 2.3 | 14,414 |
| SP Combines | 275 | 262 | 5.0 | 1,505 | 1,907 | -21.1 | 1,086 |

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

--- 2014
— 5 year average



— Assn. of Equipment Manufacturers

or flat sales for the year, only 19.3% expect growth. Of that group, 3.2% are projecting increases of 8% or more and 16.1% are forecasting rising revenues of 2-7%. Of the 50% of dealers calling for falling revenues, 27.6% anticipate a dropoff of 2-7% and 22.4% see sales revenue tailing off by 8% or more.

On a weighted basis, overall dealers anticipate a -2.06 average decline for new equipment revenues in the year ahead. This compares with a weighted average of +0.94 in 2014 and a +2.37 in 2013.

2015 Used Equipment Revenues

Declining prices and rising backlog of used ag equipment, particularly high horsepower tractors and combines, has been a major concern for North American dealers for the last several years. Nothing much has changed in the past year to alleviate their concerns. As a result, dealers' sentiments about their prospects for improving used equipment revenues in 2013 were somewhat less optimistic than they were a year ago.

Asked to rate the status of their used equipment inventory, 42.5% said it was about as expected, which in this case, most likely means it's larger than the dealers would like. That response was just slightly better than the 43.9% of dealers who rated the used equipment backlog as "way too high" (9.3%) or "too high" (34.6%). Less than 14% reported that they "need more used equipment."

Going forward, slightly over one-quarter (25.7%) of U.S. and Canada dealers expect revenues from the sale of used machinery to increase in 2015.

Of this group, only 4% are forecasting revenues to increase 8% or more, while 21.7% anticipate revenues to rise 2-7%. Compared to a year ago, this is down nearly 5%, when 30.4% of dealers expected to see an increase in used equipment revenues (8.3% up 8% or more, 32.1% up 2-7%).

Those dealers forecasting used equipment revenues to decline rose significantly. For 2015, a solid one-third of dealers (33.3%) are forecasting falling revenues, while only 19.1% were projecting declining revenues from used machinery for 2014.

| Revenue Outlook for New Equipment — 2015 vs. 2014 (% of survey respondents) | | | | | | |
|--|---------------|-------|--------|-------|--------|-------|
| New Equipment | North America | | U.S. | | Canada | |
| Revenue Outlook | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| +8% or More | 3.2% | 6.6% | 2.4% | 6.0% | 7.9% | 13.3% |
| +2-7% | 16.1% | 33.1% | 14.9% | 34.3% | 23.7% | 20.0% |
| Little or No Change | 30.8% | 36.0% | 30.2% | 33.8% | 34.2% | 60.0% |
| -2-7% | 27.6% | 18.8% | 28.2% | 19.9% | 23.7% | 6.7% |
| -8% or More | 22.4% | 5.5% | 24.2% | 6.0% | 10.5% | 0.0% |
| Weighted Avg. | -2.06% | 0.73% | -2.34% | 0.65% | -0.21% | 1.66% |

| Revenue Outlook for Used Equipment — 2015 vs. 2014 (% of survey respondents) | | | | | | |
|---|---------------|-------|--------|-------|--------|-------|
| Used Equipment | North America | | U.S. | | Canada | |
| Revenue Outlook | 2015 | 2014 | 2015 | 2014 | 2015 | 2014 |
| +8% or More | 4.0% | 8.3% | 3.3% | 7.8% | 8.6% | 13.3% |
| +2-7% | 21.7% | 32.1% | 22.0% | 32.7% | 20.0% | 26.7% |
| Little or No Change | 40.9% | 40.5% | 39.8% | 39.3% | 48.6% | 53.3% |
| -2-7% | 19.9% | 13.7% | 21.2% | 15.0% | 11.4% | 0.0% |
| -8% or More | 13.4% | 5.4% | 13.7% | 5.2% | 11.4% | 6.7% |
| Weighted Avg. | -0.67% | 1.06% | -0.79% | 1.00% | 0.16% | 1.73% |

Of those forecasting decreased revenues in the year ahead, 13.4% see sales dropping by 8% or more and 19.9% project revenues to come in 2-7% lower than in the previous year. This compares to 5.4% who anticipated revenues to fall by 8% or more a year ago, and 13.7% who predicted used equipment sales would decline by 2-7%.

The percentage of dealers who are forecasting little or no change in used equipment revenues was about the same for 2015 (40.9%) as a year earlier (40.5%).

Most Optimistic Brands

Considering only the percentage of dealers who expect increases in revenues in 2015, Kubota and independent dealers, those not carrying any of the major brands, would be at the top of this year's "most optimistic" list. At the other end of the "optimism" scale are Case IH and John Deere dealers.

Overall, 52% of Kubota dealers are forecasting a pick up in revenues in 2015, 4% are looking for gains of 8% or more and 48% see increases of 2-7%.

Of the independent dealers in the 2015 Dealer Business Outlook & Trends survey, 44.8% are forecasting

increased revenues; 6.9% see growth of 8% or more, while 37.9% anticipate increases ranging from 2-7%.

Only 4.4% of Case IH dealers are looking at revenue growth in the year ahead; 1.1% expect revenues to rise by 8% or more, and another 3.3% anticipate increases of 2-7%. Only 14.6% of Deere dealers are forecasting a revenue increase for the year; 4.2% project growth of 8% or more, while 10.4% expect an increase of 2-7%. AGCO and New Holland dealers occupy the middle ground this year, with 21% of AGCO dealers and 17.6% of New Holland dealers anticipating increased revenues in 2015. **AEI**

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