From the editors of *Farm Equipment...*

Ag Equipment Intelligence

News, Information & Analysis for the Ag Equipment Marketer

December 15, 2014
Vol. 20, Issue 12

- **World Ag Sales Down**
- **Dairies Getting Bigger**
- **Ethanol Profits Dim**

Titan Machinery Continues Focus on Reducing Inventory; Drops Profit Outlook for FY 2015

The prevailing headwinds that emerged in the second quarter of the year and began slowing industry equipment sales showed no signs of letting up in the third quarter, and continued to erode Titan Machinery's bottom line. Revenues for North America's largest dealer of farm equipment fell in its fiscal third quarter by 16% and were down 7% through the first 9 months of the year.

On Dec. 10, Titan reported its third-quarter earnings for the period ended Oct. 31, and lowered its outlook for the remainder of its fiscal year. For the fiscal year ending Jan. 31, 2015, the company revised its annual outlook and now expects revenue to be in the range of $1.85-$2 billion, compared to its previous range of $1.9-$2.1 billion. It also said that its adjusted net income will be in the range of $2.1-$6.4 million, compared to its previous range of $6.4-$12.7 million.

Reducing both new and used equipment inventory as well as improving the execution in its stores remains Titan's major focus. While the company made one acquisition in its third quarter (Midland Equipment in Wayne, Neb.), according to Rick Nelson, analyst for Stephens Inc., "We believe acquisitions remain a secondary priority at this point, although the company maintains a strong balance sheet and cash position to execute an acquisition opportunistically. Given more difficult industry conditions, we see the

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After Solid 3Q, Cervus Ramps Up Acquisition Efforts

John Deere dealer group Cervus Equipment has entered into a Definitive Agreement to acquire the assets of Deer-Country Equipment (1996) Ltd., which includes its two dealerships in High River and Vulcan, Alberta. The acquisition brings Cervus' total dealerships to 75 in Canada, New Zealand and Australia, 42 of which are ag equipment dealerships. Cervus is the largest John Deere dealer group in Canada.

This latest addition follows the company's acquisition of Evergreen Equipment's 4 stores in Alberta in September.

"As with the recently completed Evergreen acquisition, signing of this definitive agreement represents a strategic opportunity for Cervus to expand our Western Canadian presence in areas adjacent to our established John Deere locations," said Graham Drake, president and CEO of Cervus. "We expect the acquisition of these two Alberta locations to generate long-term value within our Western Canadian operations."

Ben Cherniavsky, analyst with Raymond James, estimates the transaction will cost Cervus approximately $10 million, but will generate approximately $25 million of revenue.

> ***"Consolidation opportunities across multiple channels is a big factor behind our bullish long-term outlook for Cervus..."***

"We continue to highlight the abundance of consolidation opportunities across multiple channels as a big factor behind our bullish long-term outlook for Cervus," Cherniavsky said in a note to investors.

"In fact, with this latest announcement, acquisition activity is tracking slightly faster than our original expectations, with only one acquisition assumed in our model for next year. However, in light of recent end market headwinds and related commentary from Deere, we have taken this opportunity to reduce our assumptions for organic new and used ag machine sales next year, effectively offsetting the impact from the Deere Country acquisition."

Solid 3Q. On Nov. 13, Cervus reported its earnings for the third quarter ended Sept. 30. Revenue for the quarter was $286.2 million, 14% increase vs. the same period in 2013. Year to date, revenue increased 8.7% to $690.6 million. Revenues from ag sales grew by 13% this quarter vs. 2013 and 7% year-to-date. New equipment sales also grew, up 31% in the third quarter.

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Company being patient on the acquisition front."

Moving Used. In regard to equipment inventories, David Meyer, Titan's chairman and CEO, told analysts, "As a result of the lower commodity prices, less end user demand is pressuring used equipment prices and compressing margins in the marketplace. We remain committed to moving our used equipment through the retail channel reflected in our $54 million year-to-date reduction in used equipment inventory."

"The company is also focusing on increasing presells to maximize revenues and inventory turns..."

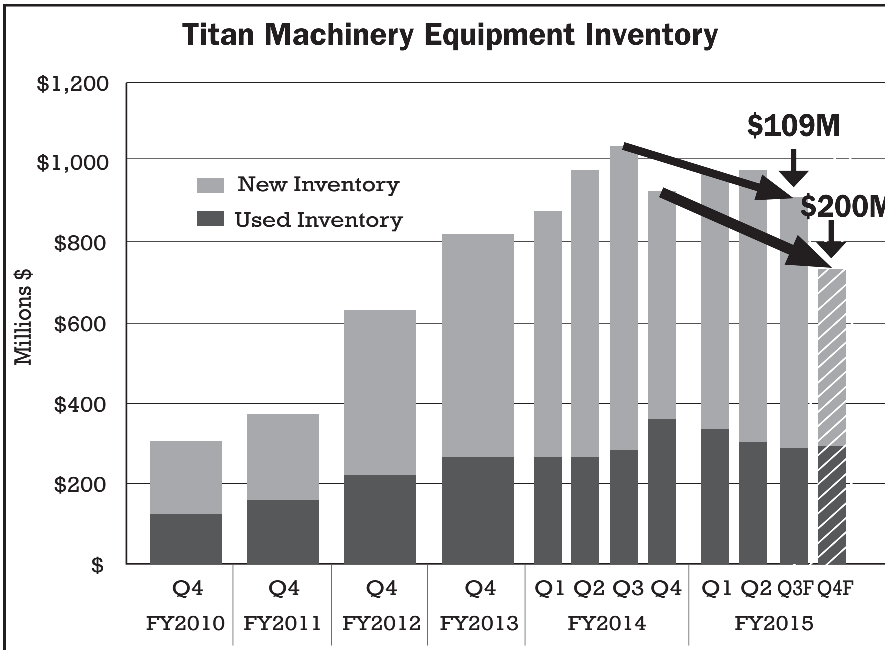
Meyer added, "On a positive note high crop yields, favorable interest rates and a strong livestock sector will provide support to our year-end business."

Reducing New. Along with moving its used inventory, Titan says it has "significantly reduced current inventory orders for equipment from its suppliers," which is the second prong in its overall inventory strategy. According to Meyer, the company is also focusing on increasing presells to maximize revenues and inventory turns.

"It is important to note that as we reduce our inventory shipments from suppliers in the final quarter of this year, our mix of non-interest bearing, new inventory will be a smaller percentage of our overall inventory," Mark Kalvoda told analysts, "Inventory reduction in fiscal 2015 is one of our company's key initiatives. This factor and our ability to achieve forecasted sales are the drivers of our inventory reduction plan."

According to Kalvoda, Titan's earlier forecast called for a reduction of $250 million for fiscal 2015. "Our new target reflects the lower than anticipated third-quarter revenue and our revised remaining outlook for fiscal 2015."

The company's third-quarter equipment inventory decreased to $933 million compared to equipment inventory of $939 million as of Jan. 31, 2014. The inventory change includes an increase of new equipment of $48 million and a decrease of used equipment of $54 million from the end of fiscal 2014. AEI



Titan Machinery expects to reduce its overall new and used equipment inventory by $200 million by the end of fiscal year 2015. The solid trend line on the graph represents a $109 million inventory reduction achieved in the third quarter compared to the same period last year. The dash trend line on the graph represents the forecasted $200 million decrease in the fourth quarter inventory compared to the same period last year. The chart also breaks out the level of used equipment vs. new equipment in Titan's inventory. Overall, the company has reduced its used inventory by $54 million despite difficult ag industry headwinds.

Source: Titan Machinery

TITAN MACHINERY — 3Q & 9 MONTH REVENUE ANALYSIS

(PERIOD ENDING OCT. 31, 2014; IN MILLIONS $)

	3Q FY2015	3Q FY2014	% Change	9 Months FY2015	9 Months FY2014	% Change
Equipment	$343.5	$441.8	–22.2%	$1,008.6	$1,134.9	–11.1%
Parts	$80.7	$80.9	–0.3%	$219.6	$214.4	2.4%
Service	$42.4	$40.6	4.3%	$117.9	$112.5	4.8%
Rental & Other	$26.6	$24.7	7.7%	$63.4	$56	13.2%
Total Revenue	$493.1	$588	–16.1%	$1,409.6	$1,517.8	–7.1%

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CERVUS EQUIPMENT 3Q & 9 MONTH REVENUES (ENDED SEPT. 30, 2014; IN THOUSANDS C$)						
Revenue	**3Q 2014**	**3Q 2013**	**% Change**	**9 Months 2014**	**9 Months 2013**	**% Change**
Equipment Sales	$220,693	$195,025	13.2%	$526,387	$497,598	5.8%
Parts	$43,932	$35,974	22.1%	$104,699	$86,577	20.9%
Service	$17,223	$14,672	17.4%	$48,630	$40,608	19.8%
Rental and Other	$4,344	$3,722	16.7%	$10,853	$10,541	3.0%
Total Revenue	**$286,192**	**$249,393**	**14.8%**	**$690,569**	**$635,324**	**8.7%**
Ag Revenues	$200,626	$177,058	13.3%	$467,386	$437,151	6.9%
Construction Revenues	$85,566	$72,335	18.3%	$223,183	$198,173	12.6%

Looking at the company's positive third quarter results, Cherniavsky said, "End markets remain mixed. The outlook for the commercial, industrial and transportation segment is getting less certain in light of lower commodity prices. The same can be said of the ag segment, where the markets for wheat, canola and other ag products are under pressure."

Despite this, Cherniavsky said they are inclined to see the glass as half full. "Farm incomes are still relatively strong, as are farmer balance sheets. Also, lower feed prices have helped cattle markets, which is good for Cervus' Ag business in Alberta. Finally, a lower Canadian dollar bodes well for the newly acquired trucking business in Ontario.

"We are counting on 2015 being a much better year for Cervus as acquisition activity settles down, debt is reduced and the benefits of scale begin to transpire in the form of earnings acceleration," he said. AEI

FARM MACHINERY TICKER (AS OF 12/11/14)								
MANUFACTURERS	**Symbol**	**12/11/14 Price**	**11/11/14 Price**	**1-Year High**	**1-Year Low**	**P/E Ratio**	**Avg. Volume**	**Market Cap.**
Ag Growth Int'l.	AFN	$54.58	$50.04	$55.30	$39.63	29.65	35,864	717.41M
AGCO	AGCO	$42.93	$45.11	$61.14	$41.56	8.75	1,554,720	3.95B
AgJunction Inc.	AJX	$0.54	$0.61	$1.20	$0.52	N/A	56,156	39.05M
Alamo	ALG	$47.80	$48.13	$61.27	$37.93	16.36	75,133	540.62M
Art's Way Mfg.	ARTW	$4.95	$5.61	$7.08	$4.76	27.50	12,759	20.04M
Blount Int'l	BLT	$16.49	$16.01	$17.61	$10.84	46.99	448,355	815.1M
Buhler Ind.	BUI	$6.00	$5.10	$7.27	$4.86	12.06	2,176	153.75M
Caterpillar	CAT	$92.76	$102.53	$111.46	$84.84	15.00	5,033,930	56.16B
CNH Industrial	CNHI	$7.74	$8.12	$11.95	$7.45	10.75	1,150,700	10.48B
Deere & Co.	DE	$87.97	$88.45	$94.89	$78.88	10.19	3,903,130	30.39B
Kubota	KUBTY	$75.43	$77.40	$87.15	$62.95	17.48	40,316	18.85B
Lindsay	LNN	$88.04	$85.95	$92.93	$73.01	22.01	130,811	1.07B
Raven Industries	RAVN	$22.40	$25.98	$42.99	$22.13	24.35	139,897	852.19M
Titan Int'l	TWI	$9.94	$10.69	$19.89	$9.14	N/A	701,425	532.87M
Trimble Navigation	TRMB	$27.25	$28.46	$40.17	$25.66	32.83	1,760,070	7.06B
Valmont Industries	VMI	$132.88	$138.48	$163.23	$126.80	17.78	308,980	3.27B
RETAILERS								
Cervus Equipment	CVL	$19.10	$18.24	$24.50	$17.80	14.58	23,671	293.18M
Rocky Mountain Equipment	RME	$8.89	$11.06	$13.63	$8.82	11.55	29,808	171.86M
Titan Machinery	TITN	$11.79	$14.86	$20.40	$10.69	N/A	178,864	247.42M
Tractor Supply	TSCO	$77.62	$73.35	$79.12	$55.95	30.67	1,188,900	10.55B

Large-Scale Operators Dominate Milk Production

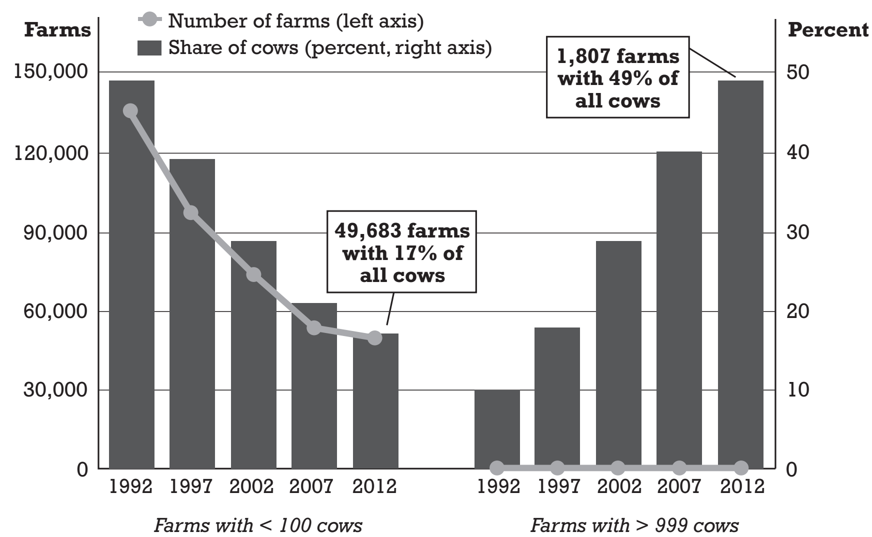
At least some part of the strong sales of utility tractors (40-100 horsepower) this past year — up 6.8% in the U.S. and 8.3% in Canada — can be attributed to the strong market for milk and dairy products starting last winter. Through October, milk prices are up more than 20% year-over-year.

Another, more subtle, trend taking place with U.S. dairy farms is they're getting larger — much larger.

According to USDA figures, in 2012, there were still nearly 50,000 U.S. dairy farms with fewer than 100 cows. That represented a large decline from 20 years earlier, when there were almost 135,000 small dairy farms. Over the same period, the number of dairy farms with at least 1,000 cows more than tripled to 1,807 farms in 2012.

Movements in the share of cow inventories mirrored movements in farm numbers. Farms with fewer than 100 cows accounted for 49% of the country's 9.7 million milk cows in 1992, but just 17% of the 9.2 million milk cows in 2012. Meanwhile, farms with at least 1,000 cows accounted for 49% of all cows in 2012, up from 10% in 1992.

Milk Production Continues Shifting to Large Scale Farms



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Source: USDA Economic Research Service using data from National Agricultural Statistics Service & Census of Agriculture

The shift to larger dairy farms is driven largely by the economics of dairy farming. Average full costs of production, which include the annualized cost of capital, imputed cost of unpaid family labor and cash operating expenses, are substantially lower on farms with larger herds.

As dairy farms and dairy herds continue to get larger, will dairy operators start looking to high horsepower equipment? **AEI**

Lemken Ups Investment in China, Germany

One of Europe's leading tillage equipment makers, German manufacturer Lemken, has opened a production facility in China in its latest step toward developing a firm presence in this expanding market.

Representing an investment of €9 million — the equivalent of more than $11 million at current exchange rates — the factory in Qingdao on China's east coast will be used for final assembly of cultivators, compact disc harrows and mounted reversible plows for the Chinese market using components manufactured at Lemken's Alpen headquarters in northern Germany.

Local dignitary Shiqing Ma highlighted the significance of modern agricultural machinery for increasing crop yields and food security, while Peter Zhao, managing director of Lemken's Chinese subsidiary, highlighted the company's positive business outlook in China based on current growth rates of 50% annually.

He said Lemken plans to introduce a range of other products to the Chinese market in order to increase agricultural efficiency, and intends to expand its service and sales network.

The family owned manufacturer has been active in China since 1995, initially through cooperation with local companies, and then through its own distribution company starting in 2009. The decision to build the assembly plant was encouraged by the investment aids offered by the Chinese government to farmers buying modern, locally manufactured agricultural machinery.

Managing director Anthony van der Ley, who succeeded Dr. Franz-Georg von Busse in August after 20 years at the helm, anticipates growing revenues from the Chinese market.

In 2013, Lemken recorded a 6% increase in group revenues over the year prior at €363 million ($459 million). Exports stand at 75% of production with the rest of Europe accounting for the bulk of revenues but with increasing contributions from other markets including North America.

Lemken has been building a distribution network in the U.S. over the past 2 years, spearheaded by Cord Diekmann from the headquarters based in Boise, Idaho, and Jim Balstead in West Fargo, N.D. They now list 63 dealer outlets able to supply Lemken products.

The company typically spends around €10 million ($13 million) on R&D annually and, as part of a 5-year €50 million ($63 million) investment plan, is building a new product design, development and testing facility in Germany. **AEI**

Amazone, New Holland Claim World Ag Productivity Records

Whether or not farmers take much notice, establishing a record performance for ag fieldwork certainly generates favorable headlines.

Moldboard plowing used to be the sole focus of 24-hour record attempts in agriculture: Massey Ferguson's 2002 record of more than 620 acres was trumped by a Case IH Quadtrac at 792 acres in 2005. In 2010, Guinness World Records recognized the 1,031 acres covered by a Versatile 535 as a new "plowing" record but failed to recognize that a big disc cultivator is not the same as a moldboard plow.

More recently, manufacturers have set out to claim new performance records for seeding, spraying and harvesting, with Amazone and New Holland getting their PR departments into a frenzy this year.

Amazone, which is targeting top-end growers in Europe with its large-capacity trailed and self-propelled sprayers, claims two new records — the largest area sprayed within 24 hours and the greatest hourly output.

The German manufacturer chose its 12,000-liter (3,170-gallon) tandem-axle UX 11200 trailed applicator for the task, using a 40 meter (131 foot) boom, supported by a vehicle-mounted 1,000-liter (264 gallon) spray solution tank and 21,000-liter (5,550 gallon) water bowser.

It sprayed volunteer canola at 100-liter/hectare (10 gallons/acre) across 15 fields to clock a total of 1,032 hectares (2,550 acres) in 24 hours, at an average 43 hectares (106 acres) an hour. Stability was a key factor, says Amazone, allowing working speeds of 13-15 kilometers/hour (8-9.5 mph) through the day and 17 kilometers/hour (11 mph) at night.

While Amazone's venture was observed and recorded by a magazine editor and two university students, Guinness World Records validated New Holland Agriculture's attempt at the regularly challenged wheat harvesting record.

Despite fluctuating ambient temperature and even some light showers, a New Holland CR10.90 rotary — the new 653 horsepower flagship of the CR series — devoured 797.656 metric tons of wheat in 8 hours to reclaim the record from arch rival Claas.

The CR averaged 99.7 metric tons/hour in the 9.95 metric tons/hectare (4 metric tons/acre) British wheat crop, peaking at 135 metric tons/hour. The previous 8 hour record was broken after just 6 hours, 36 minutes and the combine went on to thresh another 120 metric tons of grain.

Friendly rivalry between manufacturers does not always prevail: in 2012, Horsch and Väderstad had a spat trading counter claims over precision planting performance. Horsch maintains its 448 hectare (181 acre) record for planting corn in 24 hours using a 24-row Maestro planter still stands, despite the Swedish concerns counter claim that sowing 212 hectares (85 acres) using an 8-row Tempo trumps it by 42% in terms of output per row. AEI

Compact Tractors Remain Core Business for Kubota

While the news surrounding Kubota lately has been focused on the tractor manufacturer's move into mainstream "dryland" agriculture, the company is stressing that compact tractors will remain its core business during its dealer meeting Oct. 14-15 in Nashville. The company is also making a push to emerge as the leader in the lawn and turf market.

Kubota made a number of new product introductions that reinforced that compact tractors and rural lifestyle equipment remain its primary focus. While recent product enhancements to the compact tractor line have been to meet Tier 4 emission standards, the company introduced three new models to its Z700 Series of zero-turn mowers for turf care professionals and a new model to its Kommander series of residential zero turns.

"There are many manufacturers in this segment and that makes it very competitive, but it presents an opportunity for Kubota to take a leadership role. There are 20-plus manufactures, but no clear leader," says Rajesh Joshi, director of product marketing for turf and utility vehicles.

Kubota is also making its first entry into the skid steer market with the introduction of the SSV series, expanding its construction offering as well as offering the heavier equipment ranchers and farmers need. The new skid steers, the SSV65 and SSV75, feature standard 2-speed travel, overhead front door and optional high flow hydraulics.

> ***"There are many players in this segment that makes it very competitive..."***

The company has also implemented a strategic initiative to strengthen its operational and organizational efficiencies. During the meeting, it announced a new parts distribution center that will be based in Kansas City, Mo., which will be operational by summer of 2015. "Our past was more product driven. Now, we're putting more emphasis on processes," says Todd Stucke, vice president of the agriculture and turf division.

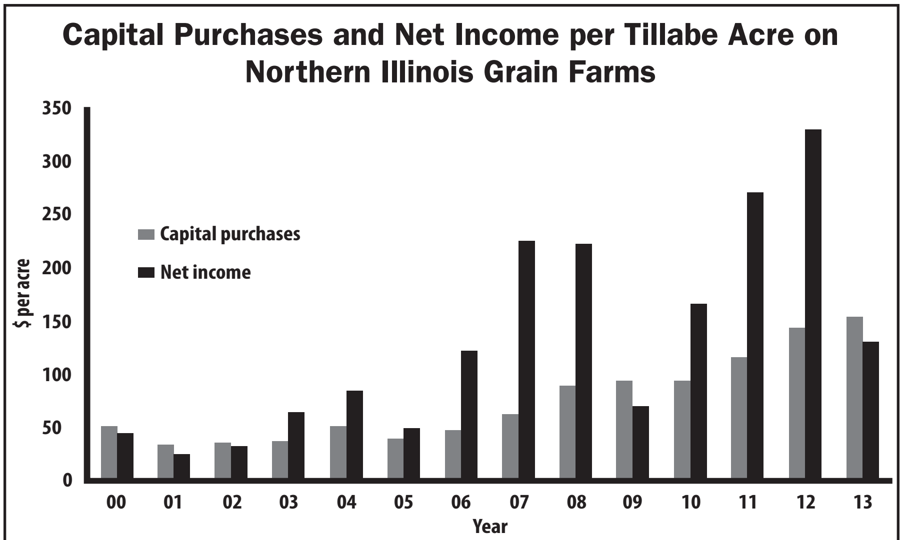
Geoff Blanco, co-owner of Rigg's Outdoor Power Equipment, a 4-store Kubota dealer in Northwestern Indiana, says the new parts distribution center will help keep his dealership competitive.

"The new parts warehousing and same day shipping will be extremely helpful for us in the Midwest. With the breadth of the product Kubota offers, coupled with the inherent longevity of their equipment, the amount of parts that can realistically be stocked is limited. To maintain a high level of customer satisfaction in both our brand and Kubota's, being able to obtain parts both cost effectively and quickly is the perfect combination to meeting demanding customer expectations." AEI

Researcher Urges Farmers to Watch Capital Spending

As commodity grain prices decline, University of Illinois' ag economist Gary Schnitkey is advising farmers to reduce their capital expenditures sooner rather than later.

"During recent years, capital purchases on grain farms have more than tripled on a per acre basis," said Schnitkey of the Dept. of Agricultural and Consumer Economics, University of Illinois at Urbana-Champaign, in a Dec. 2 Farmdoc Daily report. "Capital purchases will need to decrease given the lower net incomes projected over the next several years. Not reducing capital purchases by enough could result in financial stress in future years."



Increases in capital purchases by farmers in recent years can be attributed to higher net incomes, according to Gary Schnitkey, University of Illinois ag economist. This chart compares net income per tillable acre and farmers' capital purchases between 2000 and 2013. It illustrates how capital purchases increased during the period of higher incomes from 2006 through 2013. In 2013, Northern Illinois grain farmers' capital expenditures per tillable acre surpassed their net income. Schnitkey says, "There appears to be a lagged relationship where net incomes increased first followed by an increase in capital purchases."

Source: Illinois Farm Business Farm Management

Schnitkey has charted data on the average values of capital purchases on a per tillable acre basis of Northern Illinois grain farms enrolled in Illinois Farm Business Farm Management. He includes machinery, buildings and other items that generally have a life of one year or more as capital expenditures.

According to the report, annual capital purchases by these farms averaged $43 per tillable acre between 2000 and 2006. During this period, average expenditures ranged from a $34 low to a high of $51 per tillable acre. During the next 8 years, capital spending per acre skyrocketed: $116 per tillable acre in 2011, $145 in 2012, $154 in 2013.

Schnitkey attributes the rise in capital purchases to the sharp increase in farm net income in recent years, which led to higher disposable income. Coupled with generous depreciation schedules, farmers were able to write off the capital purchases against the higher income, which allowed them to defer their tax payments.

Forecasts of lower net incomes for 2015 and possibly beyond, Schnitkey says, "Capital purchases will need to decrease." His concern centers on the lag between the time when net incomes decline and farmers wind down their capital purchases.

Schnitkey points out that 2013 net income was down from 2012, but capital spending continued to increase in 2013. "Incomes in 2014 could be near levels in 2000 through 2005, suggesting that capital purchases should also decrease to 2000-2005 levels," he said. "A decrease of this magnitude would mean that capital purchases decrease from the mid-$100 levels seen in 2010 through 2013 back to around $40-$50 per tillable acre."

The University of Illinois ag economist added, "When incomes fell in the 1980s, there was a lag before capital purchases decreased.

"This lag contributed to financial stress during the 1980s. Lowering capital purchases now could lessen the potential for financial stress in the next several years." **AEI**

Ethanol Profit Prospects Diminish with Falling Gas Prices

"The ethanol production industry has been on an unusually long 'winning streak' in recent years," University of Illinois ag economist Scott Irwin wrote in an Oct. 23 report. He added, "A run of historically high profits began in March 2013, punctuated by a spectacular spike during February-April 2014. The high profits were largely the result of steady or rising ethanol prices and falling corn prices."

Less than 2 months later, Irwin, along with ag economist Darrell Good, say that the rapid decline in the price of gasoline has dramatically changed the profit outlook for ethanol producers.

"The magnitude of the decline in crude oil and gasoline prices has taken nearly everyone by surprise," they say in a Dec. 11 report. "NYMEX nearby crude oil futures this week touched $60 per barrel, almost $50 less than peak prices last summer. This is a major economic event with potentially far-reaching impacts for biofuels markets."

They say current high ethanol prices relative to gasoline prices, could slow the growth in domestic ethanol consumption, but would not likely result in use that is less than the 10% blend wall.

In contrast, the high price ratio may represent a threat to growth in ethanol exports, which would be expected to pressure ethanol prices and bring the ethanol/gasoline price ratio back to more normal levels. **AEI**

Large Agricultural Equipment Sales Decline Accelerates

North American large ag equipment retail sales declines accelerated in the seasonally lighter November, with 4WD tractor sales down 44.9% year-over-year, combine sales down 49.8% and row-crop tractors down 28.5%, according to the Assn. of Equipment Manufacturers November sales reports. Mid-range tractors, however, continue to show relative strength, increasing 7.9% year-over-year compared to up 6.4% last month. Days-sales of inventory rose year-over-year across all equipment categories except compact equipment.

● U.S. and Canada large tractor and combine retail sales decreased 36% in November compared to the same period last year, accelerating from the 25% decrease in October. According to Mircea (Mig) Dobre, analyst with RW Baird, November experienced the sharpest year-over-year decrease in 2014, although it is generally a seasonally unimportant month for ag sales. U.S. sales decreased 40% year-over-year, while Canadian sales decreased 16%.

● Combine retail sales fell, posting a 49.8% year-over-year decrease in November following a 40.3% drop in October. Year-over-year, U.S. combine inventories were 5% lower in October compared to down 14.5% last month.

● Row-crop tractor sales declined 28.5% year-over-year, down from the 17% decrease observed in October. U.S. row-crop tractor inventories increased 7% year-over-year in October vs. a 7.2% increase in September. On a days-sales basis, inventories were higher year-over-year at 132 days-sales (vs. 114 days-sales in October 2013).

● 4WD tractor sales declined year-over-year by 44.9% in November vs. a 40.1% decrease in October. U.S. dealer inventories of 4WD tractors increased 1.6% year-over-year in October, while days-sales of inventory was 87 compared to 73 in the prior year.

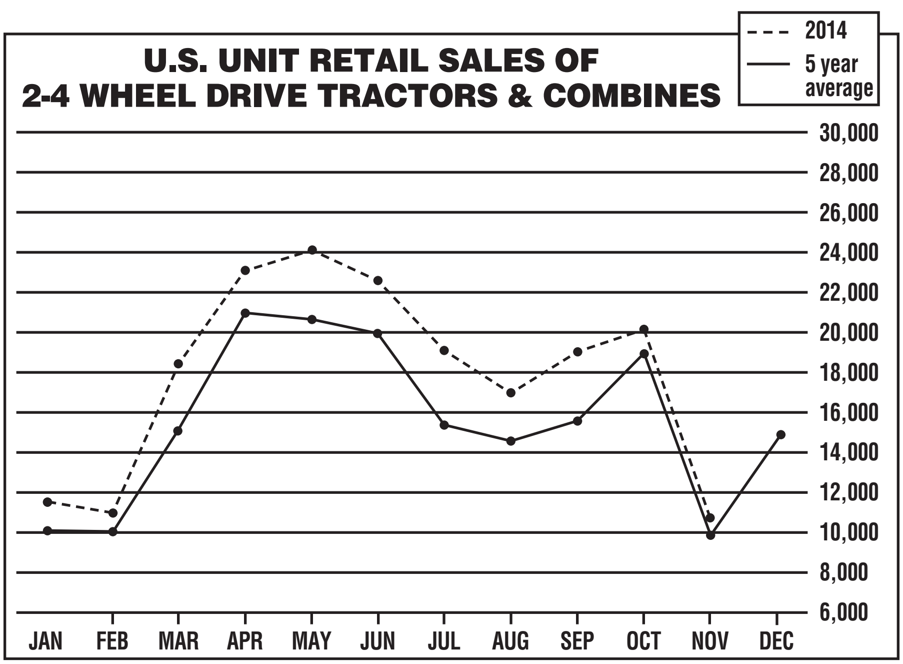
● Mid-range tractor sales continued to rise in November, up 7.9% year-over-year after a 6.4% increase last month. Compact tractor sales increased 3.7% year-over-year, down from the 13.4% increase last month. AEI

NOVEMBER U.S. UNIT RETAIL SALES

Equipment	November 2014	November 2013	Percent Change	YTD 20 14	YTD 2013	Percent Change	October 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	4,996	4,807	3.9	102,317	93,964	8.9	56,814
40-100 HP	3,490	3,304	5.6	54,317	50,845	6.8	31,929
100 HP Plus	1,546	2,289	-32.5	28,830	32,907	-12.4	12,240
Total-2WD	10,032	10,400	-3.5	185,464	177,716	4.4	100,983
Total-4WD	253	523	-51.6	4,685	6,069	-22.8	1,385
Total Tractors	10,285	10,923	-5.8	190,149	183,785	3.5	102,368
SP Combines	284	643	-55.8	7,234	9,479	-23.7	1,566

NOVEMBER CANADIAN UNIT RETAIL SALES

Equipment	November 2014	November 2013	Percent Change	YTD 2014	YTD 2013	Percent Change	October 2014 Field Inventory
Farm Wheel Tractors-2WD							
Under 40 HP	861	839	2.6	12,904	12,631	2.2	6,899
40-100 HP	687	567	21.2	6,446	5,954	8.3	4,036
100 HP Plus	345	357	-3.4	5,328	5,102	4.4	2,400
Total-2WD	1,893	1,763	7.4	24,678	23,687	4.2	13,335
Total-4WD	101	120	-15.8	1,140	1,441	-20.9	417
Total Tractors	1,994	1,883	5.9	25,818	25,128	2.7	13,752
SP Combines	166	254	-34.6	2,080	2,677	-22.3	621



— *Assn. of Equipment Manufacturers*

Tractor Sales Declining in Most Countries

Except for Russia and New Zealand, ag equipment sales were on a downward trend for most other countries as 2014 inches toward its close.

Brazil's Declining Sales

Brazilian tractor data from ANFAVEA, National Assn. of Motor Vehicle Manufacturers, indicate that tractor sales of 5,225 units represented a drop of 12.5% vs. November 2013. This was the lowest monthly sales number since 2011.

Agrimoney.com reported that John Deere sales rose by 23% for the month and Massey Ferguson saw its sales grow by 2.4% year-over-year. Sales of Valtra tractors manufactured by AGCO, unit sales fell by nearly 18%. Case IH tractor sales in Brazil for the month rose by 10.6%, while New Holland-branded machines fell by 19%.

So far in 2014, all of the major brands have faced a falloff in Brazilian sales. Overall for the year, John Deere tractor sales are down 11.9%, Massey Ferguson is down 20%, and those of Case and New Holland are both down more than 20%.

Russian Momentum

Unit shipments of farm equipment in Russia have held up pretty well in the first 10 months of the year, according to Rosagromasch. Shipments of compact tractors (<40 horsepower) were up 6.5% compared with the same period in 2013 (12,876 vs. 12,094). Mid-range tractor (40-100 horsepower) shipments were off significantly through October, dropping by 24.5% (11,957 vs. 15,831). High horsepower tractor (>100 horsepower) shipments were up 5.2% for the 10-month period (6,143 vs. 5,837). Unit shipments of 4WD tractors grew by 32.8% (932 vs. 702). Combine shipments in Russia were up slightly (2.4%) through October 2014 (4,496 vs. 4,390).

India. Mahindra, which claims about 40% of tractor sales in India, reported on Dec. 6 that its tractor sales declined by 33% in November. The company's domestic sales fell 36% in November to 14,207 units, from 22,343 units in November 2013. Total tractor sales were down 34% to 15,333 units compared to 23,119 units for the same period last year.

In other tractor news from India, the *Indian Express* reported that Italian farm machinery maker Same Deutz-Fahr (SDF) plans to launch tractors in the 35-42 horsepower segment "designed and tailor-made for the Indian market." According to SDF, the company now offers 45, 50, 55, 60, 70 and 80 horsepower tractors under the Agrolux and Agromax series in India. The company says the new tractors will be priced "in line with the 35 horsepower Swaraj tractor produced by Mahindra."

New Zealand Record

Tractor sales in New Zealand hit their highest level in a decade during the third quarter of 2014, according to Statistics NZ. Overall, tractor sales rose 8.8% to 925 units during the 3 months through September. This is the highest sales figures posted in the country since the December 2004 quarter when they reached 970 units.

Europe Slowdown

Global Hunter Securities said in research notes on Dec. 11 and 12 that tractor sales in key European markets are down for the year.

In **France**, year-over-year sales of tractors in November fell by 25% vs. down 15% in October. For the month, 1,801 units were sold.

Sales of tractor 0-99 horsepower were off by 20% year-over-year and have declined by 18% so far in 2014. Sales of tractors in the 100-199 horsepower range fell by 27% year-over-year and are down 27% for the year through November. In 200-horsepower and higher equipment, sales declined by 34% vs. a year ago and compared with down 23% in October.

In his analysis, Michael Shlisky, market analyst for GHS, said, "France continues to be the most challenged of Europe's major tractor markets after several consecutive years of double-digit growth. Besides broad macro headwinds, global declines in the prices of grains and oilseeds as well as declining dairy prices (-29% year-over-year) are impacting farmer demand for equipment. The three major OEMs have approximately 75% market share in France, roughly equally shared among Deere, AGCO and CNHI."

German sales of farm tractors were down 20% year-over-year in November to 1,366 units compared to down 11% in October. Overall sales are down by 5% for the year.

In a research note on Dec. 12, Shlisky said among the brands, AGCO's registrations were down 1% year-over-year in November for a share (among major brands only) of 26.3% (28.7% year to date). Claas' sales were down 44% year-over-year in November for a share of 3.7% (8.8% year to date, up 33 bps from the prior year).

CNHI's tractor registrations were down 25% year-over-year in November for a share of 15.1% (21.0% year to date, up 353 bps from the prior year). Deere's tractor registrations were down 31% year-over-year in November for a share of 23% (23.5% year to date, down 258 bps from the prior year). Kubota's tractor registrations were down 29% year-over-year in November for a share of 16.8% (6.1% year to date, down 46 bps from the prior year).

Tractor sales in the **UK** during November fell by 25% year-over-year to 525 units vs. down 22% in October. Through November, tractor sales were 11,857 units, a falloff of 0.3% year-over-year. For tractors 200 horsepower and higher, year-over-year sales in November were down 34% compared to down 23% in October, and down 11% for the year so far.

Cautious Outlook

In summarizing his outlook for ag equipment sales in Europe, Shlisky said, "We remain cautious on agricultural fundamentals in Europe; while meat prices have remained robust, up 13% year-over-year, dairy prices have come down from recent peaks, down 29% year-over-year. Overall, agricultural sentiment in Europe continues to deteriorate rapidly as we progress through 2014, and the most recent readings from trade associations, such as CEMA/VDMA, suggest that over half of market participants expect business to decline in the next 6 months." AEI