Finance 205 – Investments

Term Project

Individual Part Industry: Construction
Company: Agco Corp. (AG)

Raffaello Curtatone

Dr. K.G.Viswanathan

Research Profile

Traded:	NYS
Symbol:	“AG”
Recent Price (as of 11/16/2007):	$58.09
52-Week Range:	$29.18-$66.28
Fiscal Year Ends:	December 31
Shares Outstanding:	91,585
Insider Ownership:	0.45%
Institutional Ownership:	1%
Total Mkt. Value:	$5,320 M
12-Mo. E.P.S.:	$(0.71)
Price / Book Value:	$1.89
Price / Sales Value	$0.52

AGCO Corp.
4205 River Green Parkway
Duluth, GA 30096 United States
Region: South Atlantic
www.agcocorp.com

AGCO manufactures and distributes agricultural equipment and related replacement parts throughout the world. Co. sells a full range of agricultural equipment, including tractors, combines, self-propelled sprayers, hay tools, forage equipment and implements and a line of diesel engines. Co.'s products are marketed under the following brand names: AGCO®, Challenger®, Fendt®, Gleaner®, Hesston®, Massey Ferguson®, New Idea®, RoGator®, Spra-Coupe®, Sunflower®, Terra-Gator®, Valtra® and White™Planters. As of Dec 31 2006, Co. distributed its products through a combination of approximately 3,200 independent dealers and distributors in more than 140 countries.

CONDENSED BALANCE SHEET
December 31, 2006
(000)

ASSETS		LIABILITIES AND STOCKHOLDERS’ EQUITY	
Current Assets:		Current Liabilities:	
Cash and cash equivalents	$401,1	Current portion of long-term debt	$6,3
Accounts and notes receivable, net	$677,1	Convertible senior subordinated notes	$201,3
Inventories, net	$1.064,9	Accounts payable	$706,9
Deferred tax assets	$36,8	Accrued expenses	$629,7
Other current assets	$129,1	Other current liabilities	$79,4
Total current assets	$2.309,0	Total current liabilities	$1.623,6
Property, plant and equipment, net	$643,9	Long-term debt, less current portion	$577,4
Investment in affiliates	$191,6	Pensions and postretirement health care benefits	$268,1
Deferred tax assets	$105,5	Deferred tax liabilities	$114,9
Other assets	$64,5	Other noncurrent liabilities	$36,9
Intangible assets, net	$207,9	Total liabilities	$2.620,9
Goodwill	$592,1	Stockholders’ Equity:	
		Preferred stock; $0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2006	
		Common stock; $0.01 par value, 150,000,000 shares authorized, 91,177,903 and 90,508,221 shares issued and outstanding in 2006, respectively	$0,9
		Additional paid-in capital	$908,9
		Retained earnings	$774,1
		Accumulated other comprehensive loss	-$190,3
		Total stockholders’ equity	$1.493,6
Total assets	$4.114,5	Total liabilities and stockholders’ equity	$4.114,5

Investment Highlights

AGCO Corp. is harvesting profits. The market condition for agricultural companies remains robust and AGCO is taking full advantage of that. The company has blown away earnings estimates in each of the past three quarters by a minimum of 31%. Over the past 60 days, this year's estimates have risen 13 cents to $1.74 per share. Analysts are projecting earnings to grow 48% next year. The chart is looking fabulous and just broke to new highs. The question is: how long is going to be like this?

Looking at the company's ratios, the firm has a below the average internal liquidity situation and the Trend is towards shrinking liquidity. It collects the money faster than competitors, which is good according to its liquidity.

Even though the company is recuperating efficiency, its profit margin is much less that competitors and an unnoticeable proportion of debt becomes serious during bear market periods. To confirm so there are ROE, ROA, which are a way below the industry benchmark.

The overall consideration is that the price of this security is probably pushed at this high because of a speculative action. The normal price for this share should be lower, reflecting the real capability of the company respect to its competitors. If we consider the fact that the 50-day moving average has pass through the 200-day moving average we would call this a growth stock, but after a careful look into the numbers we would define this share mostly as a speculative stock.

The three ratios, P/E, P/BV, and P/S are evidencing this condition and the overall performance of low net profit margins, ROA, and ROE.

		Agco Corp.							Industry	Sector	S&P 500
		2006	2005	2004	2003	2002	2001	2000			
Internal liquidity	Current ratio	1.42	1.66	1.77	1.81	1.80	1.84	1.95	1.55	1.67	1.74
	Quick ratio	0.77	0.81	0.98	0.95	0.90	0.97	1.11	0.86	0.98	1.24
	Average collection period	2.18	6.94	-2.76	1.20	5.42	16.04	19.97	3.45	7.85	10.62
Operating efficiency	Inventory turnover	4.23	4.25	4.04	3.58	3.37	3.77	3.69	5.11	8.66	12.10
	Fixed asset turnover	1.44	1.66	1.61	1.42	1.55	1.37	1.19	0.89	1.23	0.96
Proportion of debt	Debt ratio	63.70%	63.33%	66.90%	68.09%	69.45%	63.22%	62.46%	86.00%	98.00%	124.00%
	Times-interest-earned	0.73	2.67	3.91	2.64	1.45	1.25	0.70	11.11	15.27	13.49
Operating profitability	Net profit margin	-1.19%	0.58%	3.01%	2.13%	-2.89%	0.89%	0.15%	10.96%	10.15%	19.47%
	Return on assets	-1.58%	0.82%	3.70%	2.62%	-3.59%	1.04%	0.17%	6.47%	7.84%	8.67%
	Return on equity	-4.35%	2.23%	11.16%	8.21%	-11.76%	2.83%	0.44%	30.87%	26.36%	21.56%
	ROE - DuPont analysis	-0.012	0.006	0.030	0.021	-0.029	0.009	0.001			
		1.321	1.411	1.227	1.231	1.244	1.169	1.110			
		2.755	2.727	3.021	3.134	3.273	2.719	2.664			
	growth estimate 2007	10.56%							16.40%	14.30%	
	ROIC estimate 2007	11.69%									

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Economy/Market Analysis

Following a peak in growth in 2004, growth in the US construction and farm machinery market has decelerated, due in part to cost pressures from increasing metal prices, which have had a significant impact on manufacturing costs. However, the strength of both US construction and agricultural end-users will continue to support growth within the market.
The market generated total revenues of $38.4 billion in 2005, this representing a compound annual growth rate (CAGR) of 6.8% for the five-year period spanning 2001-2005. The US market was the world's largest in 2005, accounting for 37.4% of the global market, closely followed by Asia-Pacific with a 34.1% market share.
Looking forward, the market is forecast to decelerate its current performance, with an anticipated CAGR of 4.6% for the five-year period 2005-2010 expected to drive the market to a value of $48 billion by the end of 2010. One key revenue source moving forward will result from end-users switching to machinery that meets the Environmental Protection Agency's emission standards.

Impact of economy/market on individual stocks and industries

Manufacturers have been hit hard recently by the current high price of metal, which has considerably increased materials costs. With fierce price competition in the market, increased costs cannot be passed onto customers and therefore tend to pressurize margins. Large companies with sufficient economies of scale and diverse product portfolios can, largely, offset fluctuations in manufacturing costs, thus boosting their competitive strength.

Impact of fiscal policy initiatives and government spending on demand and growth

Opportunities provided by growth in construction markets over the next few years will be aided by government spending on transport, including more than $286 billion allocated in the Surface Transportation Act of 2005.

Impact of monetary policy on supply and demand of funds

Fed already cut half point the interest rate on September 18th 2007. According to the latest speech of the board there will be no further cuts in the near future, but considering the actual situation of the big write-offs on the sub-prime related securities from the banks, additional RFR reductions are not totally excluded. This industry benefits of these movements reducing its payments in interest.

Impact of inflation on consumption and spending

Stock returns of noncyclical industries tend to covary positively with expected inflation, while the reverse holds for cyclical industries (Industry Returns and the Fisher Effect - Jacob Boudoukh , Matthew Richardson, Robert F. Whitelaw).
However, in the period 2000-2005, this market has shown its best performances together with high inflation rates.

Impact of war and political uncertainty on investment and spending

War and political uncertainty are obviously bad for any industry. Particularly this company is having a boom of the sales in South America and the latest news coming from that area are related to a worsening of the relationship between Venezuela's president U. Chavez and Colombia. This relationships freezing undermine unilateral agreements affecting business.

Green energy or greener water in the Chesapeake?

September 6th 2007, the Chesapeake Bay Commission – a multistate commission led by the state governments of Maryland, Virginia, and Pennsylvania - issued a new report on how rapid expansion of up to 300,000 new acres of corn production in the Chesapeake watershed could add another 5 million pounds of nitrogen pollution to the waters of the Bay. (Already in 2007, 160,000 acres of corn were planted in the watershed.) Corn is fertilized with an average of

150 lbs of nitrogen per acre. Much of this runs off into nearby water bodies because corn absorbs only 40 - 60 percent of that amount.
Underweight country with pessimistic outlook; Overweight country with optimistic outlook

Fatter Futures?

Congress must do more to encourage healthy eating choices in our schools. For starters school lunches – which are heavily subsidized by USDA – should look a lot more like the fruit- and vegetable-heavy food pyramid USDA pushes. Senator Menendez from New Jersey and Senator Stabenow from Michigan have already proposing giving USDA further direction do so. In particular, Senator Menendez’s bill expands support for programs that expand the connections between a healthy environment and healthy foods. Too many farmers offering to help improve the environment are turned away because USDA lacks the money to partner with them.

Industry Analysis

(SIC code 3523 - Farm Machinery and Equipment)
Despite difficulty in the early 2000s, the agricultural machinery and equipment industry rebounded during the middle part of the decade. U.S. sales of two-wheel drive tractors increased 7 percent from 2003 to 2004, and four-wheel drive tractor sales increased more than 100 percent. Self-propelled combines also surged in demand, with a 75 percent increase in sales from 2003 to 2004, followed by an 18.1 percent increase in sales from first quarter 2004 to 2005, as reported in the Association of Equipment Manufacturers' (AEM) March 2005 Flash Report.
In 2010, the United States construction and farm machinery market is forecast to have a value of $48 billion, an increase of 25.1% since 2005. The compound annual growth rate of the market in the period 2005-2010 is predicted to be 4.6%.

Industry specific factors

Franchised dealers, who specialize mainly in one manufacturer's products, sell the majority of the world's farm machinery and equipment. Dealers may distribute more than one manufacturer's products if those products do not directly compete. Manufacturers generally support dealers by financing inventories, training staff, and advertising. Demand for farm machinery fluctuates seasonally, and farm machinery has a long life span.

Sensitivity of industry to business cycles

The industry related to construction products is very cyclical, especially when looking at trucks, farm machinery, or vehicles. Many construction companies will purchase trucks, then they get a few years of use from them, which causes a decrease in sales, then they are ready to buy again causing an up and down trend. Due to the penetration of the world’s larger companies, growth potential is rather difficult and slow; therefore, over the past few years many construction companies have created financial divisions in order to give loans on finances and leases to prospective customers.

Company Analysis

Company: AGCO Corp. (AG)
S&P Long-Term Issuer Credit Rating: BB+
AGCO marketed its diversified agricultural products worldwide and employed 13,000 people. CEO Robert J. Ratliff launched a significant changeover by expanding the company's narrow product line, thereby increasing its worldwide tractor market share to 20 percent.

Strengths

The company put a lot of efforts in R&D in order to gain competitive advantage of upcoming regulations. In light of international pressure aimed at reducing the environmental impact of heavy industry, customers are becoming more environmentally-conscious, especially given the more stringent emission regulations set to take effect in 2007. Companies are increasing R& D spending in an effort to gain competitive advantage in innovative products that comply with new Environmental Protection Agency emissions standards ahead of the 2007 deadline.

Weaknesses

The company's margins are low. This company did not diversify its operations. In order to maintain margins, competitors have looked to reduce costs and increase production efficiency through restructuring initiatives and complementary acquisitions. To safeguard earnings against fluctuations in revenues from the core business, some companies are diversifying into alternative industries. For example, the larger machinery manufacturers are utilizing their strong brand identity to focus on non-core operations for revenue growth. Caterpillar, Deere & Co and Kubota have all seen their financial service businesses become increasingly important to their top line.

Opportunities

Opportunities provided by growth in construction markets over the next few years will be aided by government spending on transport, including more than $286 billion allocated in the Surface Transportation Act of 2005.

Threats

Manufacturers have been hit hard recently by the current high price of metal, which has considerably increased materials costs. With fierce price competition in the market, increased costs cannot be passed onto customers and therefore tend to pressurize margins. Large companies with sufficient economies of scale and diverse product portfolios can, largely, offset fluctuations in manufacturing costs, thus boosting their competitive strength.

Ratio analysis

Internal liquidity

Not Favorable. The firm has a below the average internal liquidity situation compared to the industry, sector, and S&P 500 except for the collection of payments which is mostly needed to meet obligations. Trend is towards shrinking liquidity.

Current ratio

Not favorable: decreased from 2000 to 2006. Below the industry, sector, and S&P 500.

Quick ratio

Not favorable: decreased from 2000 to 2006. Below the industry, sector, and S&P 500.

Average collection period

Favorable, a positive trend with data below the industry, sector, and S&P 500 level.

Operating efficiency

Favorable. The company is recuperating efficiency.

Inventory turnover

Mostly favorable, it is still a bit below the industry (the right benchmark in this case), but with a positive trend.

Fixed asset turnover

Favorable, there is some fluctuation due to the cyclic nature of the business, but it is over the industry / sector level.

Proportion of debt

Mostly not favorable. For the cyclic nature of this business and the company's proportion of debt, this company during throat periods is not able to face the interest charge. Even though its debt is lower than the industry, the profit margin is significantly smaller.

Debt ratio

Mostly Favorable, below the industry, with a cyclic trend. The long term trend is stationary.

Times interest earned

Not favorable. The value is significantly below the industry; the long term trend is stationary. Not consistent with the gain in efficiency.

Operating profitability

Mostly favorable. All the profitability ratios are above the industry, but with a negative trend. From 2003 to 2004 the company had a drop on sales of 8.5% and it lost 1.6% in profit margin.

Net profit margin

Not favorable. The company is a way blow its competitors.

Return on asset

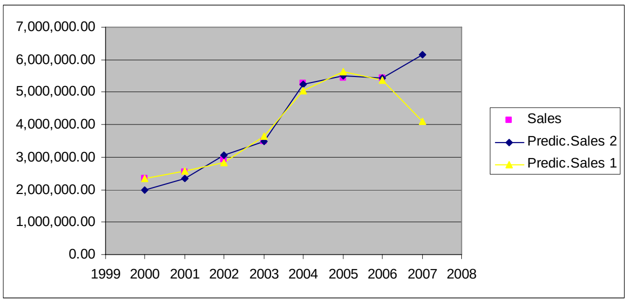
Not favorable. The company is a way blow its competitors.

Return on equity

Not favorable. The company is a way blow its competitors.

Stock price evaluation

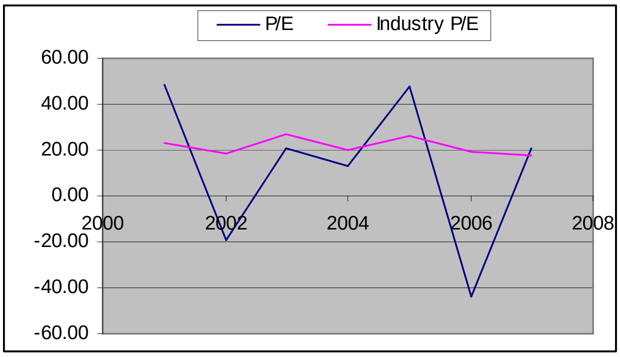
Agco Corp. suspended dividends payments on the first quarter of 2001. Therefore it is not possible to use any of the techniques involving dividends to calculate either the growth rate or the stock price.
The two techniques used to calculate the share price are both related to the estimate of the earning multiplier, very volatile for this company. The company's WACC (2007 estimate 7.35%) has been calculated with the book value weights (the P/BV of the company is below the industry, but greater than 1). To determine the Net income for the year 2007, it has been ran a linear regression for the sales of the company using for variables the GDP, the year, and the square of the GDP (from the plot of the residuals there are signs of quadratic terms). The computation has been made in two ways: one regular regression, and the other using "solver" function and autocorrelation factors. Despite the regular regression totalized a lower SSE, the minimization of SSE through solver function makes more sense as we can see the trend below.
The selection has been a secular linear upward trend with a seasonal factor which is a good fit for the cyclical industries like farm machinery and equipment.



There is consistence between the two prices calculated with these methods and they are approximately $20 below the current market price. It is therefore suggested not to buy this security, or in case you are stock owner, to hold on to it, eventually to be prepared to sell.

Earning multiplier

As we said earlier this data for this company is very volatile. This is due to the fact that the company does not pay dividends and the business is cyclical, with a very small profit margin.
As we can see from the graph below, P/E ratio for this company has the same trend of the industry average, but peaks and valleys are much more accentuated.



As an estimate of year 2007, it has been decided to take the median value of the years 2000-2006. This value, looks like the more appropriate because it is not possible to compute the geometric mean (some earnings are negative), the arithmetic mean would be higher because there is an extremely high return for year 2000 (if we exclude it as an outlier, the P/E drop to 16 which is believed too low). The estimated earning per share in 2007 are $1.85 and multiplying this value by the P/E ratio, we obtain a share price of $38.05 (around $20 less than the actual price).

Dividend valuation

This company does not pay dividends since the 1st quarter of 2001. Until then, it was paying 1 cent per quarter. In the year 2000, the company paid $0.04 in dividends and had $0.06 as per earning per share. With 4 cents in dividends (payout ratio 68.10%), the sustainable growth is 0.14%. To be noted is that the implicit price is $2.94 (the share is traded at the end of the year for $12.11. If we compute the stock price for year 2001 though the constant growth model, we get a share price of $2.16 considering k = 2%.
Here the investors, to pay $12.11, are either expecting a return of 0.5%, or considering something else.

FCFE

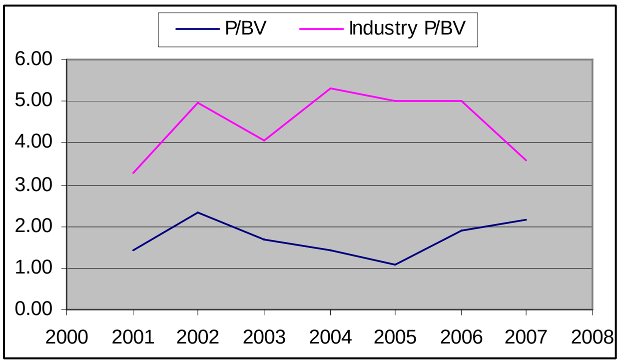
The Net income calculated for the year 2007 in the income statement, considers the same

proportion from year 2005 to year 2006 (quantities to grow linearly) for cost of revenue, research development, selling general and administrative. It considers the arithmetic mean of the years 2000-2006 for: total other income / expenses net and minority interest. The calculus of the interest expense has been made multiplying the WACC by the outstanding current and non current debt. The tax expense corresponds to the IBT multiplied by the tax rate (39.35% = most recently high, because the company has some differences due to deferred taxes).
At this point, considering 91,852,540 shares outstanding, the estimated earning per share for year 2007 is $1.85. It has predicted, according to the calculated growth duration of 3.31 years (payout = 0; industry g, P/E, dividend yield = 4.60%, 17.71, and 1.10% respectively), a period of high growth cash flows, followed by a decreasing growth cash flow starting year 2010 until 2015, followed by a constant growth of 5.50%

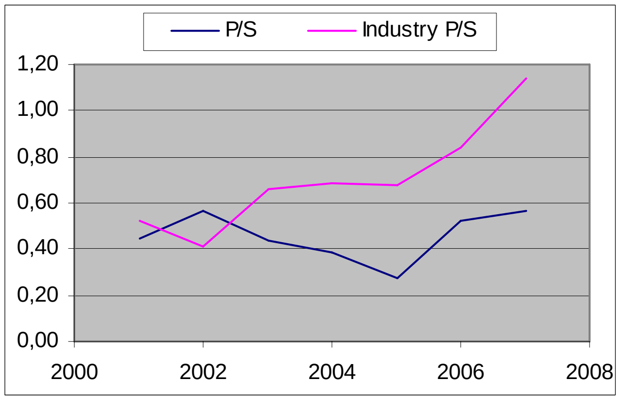
YEAR:	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	TV	
CF Estimate	$1,85	$2,05	$2,26	$2,50	$2,75	$3,00	$3,24	$3,47	$3,68	$3,89	$75,53	
WACC Discount	0,9316	0,8678	0,8084	0,7531	0,7015	0,6535	0,6088	0,5671	0,5283	0,4921	0,4921	
	High growth cash flows			Declining growth cash fows						Costant growth		
PV CF WACC	$1,72	$1,78	$1,83	$1,88	$1,93	$1,96	$1,97	$1,97	$1,94	$1,91	$37,17	**$56,07**
CF Growth Estimate	10,56%	10,56%	10,56%	10,00%	9,00%	8,00%	7,00%	6,00%	5,80%			

Historical P/CF Multiple	20.55
Shares Outstanding	91,852,540
Total Debt	$577,400,000.00
FCF	$5,150,173,245.16
less Debt:	$577,400,000.00
Equity Value	$4,572,773,245.16
Equity Value per Share	$49.78

To discount the future cash flows to the present it has been used the firm's cost of equity (Ke = 10.56%)
The price of the stock calculated with this method is $38.36. Also in this case we are approximately $20 below the actual price.
The next graph which helps explaining the characteristics of this company is the price to book value of this company, compared to the industry for the years 2001-2007. The P/BV ratio of Agco Corp. is oscillating from 1.5 to 2.5 during the same years. It is approximately constantly 2 below the industry reference which varies between 3.5 and 5.5. This could be explained from the lower ROE compared to the industry. Ultimately, the spread is getting narrow, but from the graph it is appreciable that this is mostly due to a decrease in the industry P/BV ratio.



The P/S ratio again is evidencing the low performances of the company. In fact, differently from what positively could be thought (big growth of sales), the lower number compared to the industry level with the increasing spread, is mostly due to a significantly lower net profit margin compared to competitors.



Considering also that P/S is one f the ratios with the lowest probability to be subject to accounting creativity, this finding also straighten the overall analysis.

Company Background

Incorporated in Delaware in Apr. 1991.
On June 22, 1990, Co. acquired Deutz-Allis Corporation for approximately $89,400,000.
On Mar. 31, 1991, Co. acquired the forage equipment of Hesston Corp. for approximately $27,825,000.
On May 31, 1991, Co. acquired assets of Allied Products Corp.'s White Tractor business for approximately $10,124,000.

In Jan. 1993, Co. acquired a 50% joint venture interest in Agricredit Acceptance Company.
On Jan. 2, 1993, Co. acquired substantially all of the net assets of Massey Ferguson's North American Distribution Operations for approx. $94,770,000.
On Dec. 1993, Co. acquired the White-New Idea Farm Equipment Division from Allied Products Corp.
In Feb. 1994, Co. acquired the remaining 50% interest in Agricredit Acceptance Company.
On June 29, 1994, Co. acquired Massey Ferguson Group Ltd. from Varity Corp. for $310,000,000 cash and 500,000 shs. of AGCO common stock valuing the transaction at approx. $328,000,000
On Mar. 31, 1995, Co. acquired substantially all the net assets of AgEquipment Group.
On June 28, 1996, Co. acquired certain assets and liabilities of the agricultural and industrial equipment business of Iochpe-Maxion S.A. for consideration consisting of approx. $260.0 million.
In July 1996, Co. acquired certain assets of Western Combine Corporation and Portage Manufacturing, Inc., Co.'s suppliers of Massey Ferguson combines and certain other harvesting equipment sold in North America.
In Nov. 1996, Co. sold a 51% interest in Agricredit to a wholly-owned subsidiary of Rabobank. Co. received total consideration of approx. $44.3 million in the transaction. The Company retained a 49% interest in Agricredit and now operates Agricredit with Rabobank as a joint venture. The Agricredit Joint Venture has continued the business of Agricredit and seeks to build a broader asset-based finance business through the addition of other lines of business.
In Dec. 1996, Co. acquired the operations of Deutz Argentina S.A., together with approx. 225 dealer contracts. Deutz Argentina supplies agricultural equipment, engines and light duty trucks to Argentina and other markets in South America.
In Jan. 1997, Co. acquired the operations of Xaver Fendt GmbH & Co. KG for approximately $283,500,000 plus approximately $38,000,000 of assumed working capital debt. Fendt manufactures and sells tractors ranging from 45 to 260 horsepower through a network of independent agricultural cooperatives and dealers in Germany and a network of dealers and distributors throughout Europe.
In Dec. 1997, Co. acquired the remaining 68% of Dronningborg Industries a/s (the Dronningborg Acquisition), Co. is located in Denmark supplier of combine harvesters sold under the Massey Ferguson brand name in Europe.
In Dec. 1997, Co. sold 50% of Deutz Argentina's engine production and distribution business to Deutz AG, a global supplier of diesel engines in Cologne, Germany.
In July 1998, Co. acquired the Spra-Coupe product line, a brand of agricultural sprayers sold in North America.
On Oct. 7, 1998, Co. acquired Willmar brand of agricultural sprayers, dry fertilizer spreaders and loaders, from Cargill, Inc.
On Oct. 1, 1999, Co.'s Coldwater facility closed and will not resume production.
In May 2000, Co. acquired a 50% interest in Hay and Forage Industries.
On Apr. 16, 2001, Co. acquired Ag-Chem Equipment Company, Inc. (Ag-Chem). Ag-Chem shareholders received total consideration of $28.50 per Ag-Chem common share consisting of 1.2317 shs. of Co. common stock and $15.3958 cash.
On Mar. 5, 2002, Co. acquired the design, assembly and marketing of the new MT Series of Caterpillar, Inc.'s Challenger tractor line. Co. issued approximately 1.0 million shares of common stock in the transaction valued at approximately $21.0 million based on the closing price of Co.'s common stock on the acquisition date.
On Nov. 7, 2002, Co. acquired the assets of Sunflower Manufacturing Co., Inc. (``Sunflower''), a product line of SPX Corporation for $45.0 million, subject to an adjustment.
On Jan. 5, 2004, Co. acquired the Valtra tractor and diesel engine operations of Kone Corporation for $760,000,000.

Business Opportunities

Joint Ventures

On Nov. 1, 1996, Co. entered into an agreement with De Lage Landen International, B.V., a wholly owned subsidiary of Cooperatieve

Raiffeisen-Boerenleenbank B.A., Rabobank Nederland to be its joint venture partner in Agricredit, the Company's retail finance subsidiary in North America. As a result of the agreement, Co. sold a 51% interest in Agricredit to Rabobank. Co. received total consideration of approx. $44.3 million in the transaction. Under the Agricredit Joint Venture, Rabobank will have a 51% interest in Agricredit and Co. will retain a 49% interest in the finance company. Substantially all of the net assets of Agricredit were transferred to the Agricredit Joint Venture. The Agricredit Joint Venture will continue the current business of Agricredit and seek to build a broader asset-based finance business.

Business locations

Geographic Analysis					
	Revenues				
Report Date	12/31/2006		12/31/2005		12/31/2004
Currency	US Dollar		US Dollar		US Dollar
Scale	Thousands		Thousands		Thousands
United States	1.008.000		1.291.000		1.168.100
Canada	200.200		240.100		176.900
Germany	627.000		534.900		470.100
France	624.800		569.700		604.700
United Kingdom & Ireland	322.600		286.500		301.000
Finland & Scandinavia	657.500		641.200		634.400
Other Europe	857.600		681.500		673.600
South America	644.000		634.500		786.000
Middle East	151.200		212.200		127.100
Asia	58.600		84.400		72.000
Australia	101.000		120.300		119.000
Africa	93.800		62.700		62.200
Mexico, Central America & Caribbea	88.700		90.700		78.200
Total	5.435.000		5.449.700		5.273.300

SBUs

Tractors

Co. sells tractors in the range 40-500 horse power under AGCO, Challenger, Massey Ferguson, Fendt and Valtra brand names.

Combines

Co. sells combines under the Gleaner, Massey Ferguson, Fendt, and Challenger brand names.

Sprayers

Co. offers self-propelled, three- and four-wheeled vehicles and related equipment for use in the application of liquid and dry fertilizers and crop protection chemicals, under the RoGator, Terra-Gator, and Spra-Coupe brand names.

Hay Tools and Forage Equipment, Sprayers, Implements and Other Products

Co. sells hay tools and forage equipment primarily under the Hesston brand name and, to a lesser extent, the New Idea, Massey Ferguson, and Challenger brand names.
Co. also distributes implements, planters and other equipment for its product lines.
Co. also develops, manufactures, distributes and provides support for a variety of precision farming technologies.
Through SisuDiesel Engines division of Valtra, Co. now produces diesel engines, gears and generating sets for use in Valtra AGCO products and for sale to third parties. The engine division of Valtra specializes in the manufacture of offroad engines in the 50-450 horsepower range.

Replacement Parts

Co. sells replacement parts, many of which are proprietary, for products sold under all of Co.'s brand names.

Technology Applications

Agco Corp. produces a variety of precision farming technologies. These precision farming technologies provide farmers with the capability to enhance productivity on the farm by utilizing satellite global positioning systems, or GPS. Farmers use the Fieldstar precision farming system to gather information such as yield data to produce yield maps for the purpose of developing application maps.
AGCO Corporation on September 5th 2007 announced the formation of AGCO Advanced Technology Solutions. The primary mission of this new group will be to develop and incorporate the latest advanced technologies into all AGCO machinery brands to ensure that their customers are among the most productive and efficient in the agricultural machinery sector.
Many of Co.'s tractors, combines, planters, sprayers, tillage equipment and other application equipment are equipped to employ the Fieldstar system at the customer's option. Co.'s SGIS software converts a variety of agricultural data to provide application plans to enhance crop yield and productivity. Co.'s Auto-Guide satellite

navigation system assists parallel steering to avoid the under and overlap of planting rows to optimize land use and allow for more precise farming procedures from cultivation to product application.

Recent Developments

AGCO Corporation on the 18th of September 2007 has purchased the privately owned Industria Agricola Fortaleza Limitada ("SFIL"), a leading Brazilian provider of farm implements. Based in Ibiruba, Brazil, SFIL manufactures and distributes a line of farm implements including drills, planters, corn headers and front loaders. SFIL's 2007 sales are estimated to be approximately US$35 million.

"AGCO's technology driven tractors and combines have built strong market positions in the South American marketplace due in large part to our superior dealer network," commented Martin Richenhagen, Chairman, President and Chief Executive Officer of AGCO. "The SFIL family of products complements our market leading tractor and combines business and provides another step towards expanding our product offering for our South American dealers and their customers."

Founded in 1967, SFIL's expertise regarding local soil conditions and local planter requirements has earned their products a reputation for quality and innovation. "The addition of this line of implements will allow us to leverage the strength of our brands and our robust dealer networks to further grow our business in the South American region," explained Andre M. Carioba, Senior Vice President and General Manager AGCO South America. "AGCO is committed to growth and the purchase of SFIL will better position us in the competitive marketplace."

AGCO manufactures farm equipment in three Brazilian factories for the South American market. Combines are produced in Santa Rosa (State of Rio Grande do Sul) and tractors are produced in factories located in Mogi das Cruzes (State of Sao Paulo) and Canoas (State of Rio Grande do Sul). AGCO generates approximately 15% of its sales in South America.

The Outlook

The company's operations are subject to the cyclical nature of the agricultural industry. Sales of our equipment have been and are expected to continue to be affected by changes in net cash farm income, farm land values, weather conditions, the demand for agricultural commodities, farm industry related legislation and general economic conditions.

Worldwide industry retail sales of farm equipment in 2007 are expected to be flat compared to 2006 levels. In North America, 2007 farm income is projected to be modestly higher, but continued uncertainty surrounding the renewal of the farm bill is expected to keep industry retail sales flat compared to 2006. In South America, the income of soybean farmers is expected to improve; however, high farmer debt levels are expected to continue to pressure investment in farm equipment. Consequently, industry sales in South America are forecasted to be flat compared to 2006. In Europe, continued expansion in Eastern Europe is expected to offset a slight reduction in sales in Western Europe.

Based on this market outlook, net sales for the full year of 2007 are expected to be slightly higher than 2006 due to pricing, market share improvement, growth in Eastern Europe and the impact of favorable currency translation. Net income is expected to improve in 2007 compared to 2006 resulting from sales increases and lower interest expense due to debt refinancing. In 2007, strategic investments in the form of increased engineering expense, plant productivity initiatives, a European system initiative, new market development and distribution improvements are expected to limit operating margin improvement.

Summary and Conclusion

The overall consideration about this security is a "hold", mostly oriented to sell depending on the reason it made you buying this stock in case you are a stockowner. Of course this suggestion is affected by a lot of uncertainty. Among all the analysts mentioned in the financial websites, in the average 3 over 5 would suggest you to hold, and the other 1/5 is either saying "strong sell" and "strong buy". Exactly in the same way analyzing this company you realize that every year there is something new, making the right decision in almost impossible. What it is possible to say is that these years to come look favorable for the industry and therefore, picking up a good company, with international operations, with its presence in the market for over 10 years you will difficultly be wrong, but there are better securities in the market which are not overpriced as this one and that is the indication of the analysis. This security seems to be used more for speculations than as an investment.

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