

AGCO (Q2 2025 Earnings)
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Corporate Speakers

- Greg Peterson; AGCO; Head of Investor Relations
- Eric Hansotia; AGCO; Chairman, President & Chief Executive Officer
- Damon Audia; AGCO; Senior Vice President and Chief Financial Officer

Participants

- Tami Zakaria; JP Morgan; Analyst
- Stephen Volkmann; Jefferies; Analyst
- Timothy Thein; Raymond James; Analyst
- Jamie Cook; Truist; Analyst
- Kristen Owen; Oppenheimer & Company; Analyst
- Peter Kalemkerian; RW Baird; Analyst
- Kyle Menges; Citigroup; Analyst
- Steven Fisher; UBS; Analyst

PRESENTATION

Operator^ Good day. Welcome to the AGCO Second Quarter 2025 Earnings Call.

(Operator Instructions) Please note this event is being recorded.

I would now like to turn the conference over to Greg Peterson, AGCO Head of Investor Relations.

Greg Peterson^ Thanks. And good morning. Welcome to those of you joining us for AGCO's second quarter 2025 earnings call.

We will refer to a slide presentation this morning that is posted on our website at www.agcocorp.com.

The Non-GAAP measures used in the slide presentation are reconciled to GAAP measures in the appendix of the presentation.

We will make forward-looking statements this morning including statements about our strategic plans and initiatives as well as their financial impacts.

We'll discuss demand, product development and capital expenditure plans and timing of those plans and our expectations concerning the costs and benefits of those plans and timing of those benefits.

We'll also cover future revenue, crop production and farm income, production levels, price levels, margins, earnings, operating income, cash flow, engineering expense, tax rates and other financial metrics.

All of these are subject to risks that could cause actual results to differ materially from those suggested by the statements.

These risks include, but are not limited to, adverse developments in the agricultural industry, supply chain disruption, inflation, tariffs, weather, commodity prices, changes in product demand, interruptions in the supply of parts and products, the possible failure by us to develop new and improved products on time including premium technology and smart farming solutions, within budget and with the expected performance and price benefits, difficulties in integrating the PTx Trimble businesses in a manner that produces the expected financial results, introduction of new or improved products by our competitors and reduction in pricing by them, the war in the Ukraine, difficulties in integrating acquired businesses and in completing expansion and modernization plans on time and in a manner that produces the expected financial results, and adverse changes in foreign financial and foreign exchange markets.

Actual results could differ materially from those suggested in these statements.

Further information concerning these and other risks is included in AGCO's filings with the Securities and Exchange Commission including its Form 10-K for the year ended December 31, 2024, and subsequent Form 10-Q filings.

AGCO disclaims any obligation to update any forward-looking statements except as required by law.

We'll make a replay of this call available on our website later today.

On the call with me this morning is Eric Hansotia, our Chairman, President and Chief Executive Officer; and Damon Audia, Senior Vice President and Chief Financial Officer.

With that, Eric please go ahead.

Eric Hansotia^ Thanks, Greg, and good morning to everyone joining us today.

We delivered solid second-quarter results, driven by disciplined execution in areas within our control, despite a challenging global agricultural landscape.

Weak farm economics and delayed purchasing decisions across several regions heavily influenced the uncertainty in global trade that impacted demand.

Net sales totaled over \$2.6 billion, down approximately 19% year-over-year or 11% excluding the Grain & Protein business we divested last year. This decline reflects continued softness in North America and Western Europe, coupled with our ongoing impact from reducing dealer inventories in several parts of the world. Despite the uncertain near-term outlook, we remain focused on executing our strategy, supporting our dealers and customers, and investing in technologies that will fuel long-term growth.

We are closely monitoring evolving tariff policies in the U.S. and in other parts of the world.

As I said last quarter, we will try to limit the effects on farmers by trying to minimize increases through supplier discussions and other supply chain adjustments.

We will implement price increases where appropriate and feasible.

For the quarter, consolidated operating margins were 6.2% on a reported basis and 8.3% on an adjusted basis, reflecting strong decremental margins in the mid-teens. This performance highlights excellent global execution by our teams, who continue to deliver on our sales strategy and with a richer mix of products in

several parts of the world, while simultaneously executing on our ongoing restructuring plans.

Notably, we achieved these margins despite a 16% reduction in production hours compared to quarter two 2024 as we are diligent in our efforts to align dealer inventories as quickly as possible.

We made meaningful progress in reducing both company and dealer inventories. This discipline was reflected in our working capital improvements, and free cash flow generation during the first half of the year, which was up nearly \$400 million compared to the same period in 2024.

In Europe, sentiment has been moving more positive for much of the past year. Granted, that improvement trend has paused in the last two months.

As AGCO's largest and most critical region, Europe continues to provide better demand stability, strong consistent operating margins and helps dampen the impact of U.S. trade policy on our financials.

In North America, farmer sentiment remains cautious. Although government aid is expected to support higher net farm income, tight margins persist due to elevated input costs and reduced export demand. The uncertainty for farmers on several fronts has continued to weigh on their willingness to update their equipment.

However, North America ag barometers continue to show relatively strong sentiment.

On a more positive note, South American farmers are poised to expand their global share in key commodities over the next year, supported by favorable trade policies.

Despite the near-term uncertainty in some markets, we continue to believe that 2025 will be the trough for the ag industry with modestly higher demand in 2026 in all regions. Global tractor sales were the lowest last month of any time in the past 15 years, which supports our view of trough conditions.

Turning to a couple of AGCO-specific items.

We recently announced our resolution with TAFE on all outstanding commercial, governance, and shareholding matters. This outcome was made possible through close collaboration with Sudarshan Venu, son of TAFE's Chairman and Managing Director. This agreement was a very positive step forward for AGCO and its shareholders. This agreement paves the way for a more shareholder-friendly capital allocation strategy, including the new \$1 billion share repurchase program that Damon will discuss shortly.

AGCO's Board and management remain fully committed to our Farmer-First strategy, which we believe will enhance customers' outcomes, drive operational success, and deliver strong returns for shareholders.

Slide four provides an overview of industry unit retail sales by region for the first half of 2025. The global farm equipment market continues to face significant headwinds, with North America and Western Europe experiencing the most pronounced declines.

However, Brazil is showing early signs of recovery, supported by favorable trade dynamics coupled with the fact that they were the first of our major markets to experience the downturn.

North America tractor sales declined 13% year-over-year, with consistent softness across horsepower categories. Higher horsepower segments saw steeper declines in recent months, reflecting ongoing uncertainty around grain export demand and persistently high input costs. These pressures are expected to continue weighing on demand, particularly for large equipment.

In Western Europe, tractor sales fell 12% in the first half of 2025 compared to the same period last year. This decline reflects more cautious farmer sentiment driven by policy uncertainty and softening commodity prices.

We are now in the fourth year of industry decline, which is longer than the typical European market downturns of past cycles.

Turning to Brazil. Tractor sales rose 6% in the first half of 2025, led by demand in lower horsepower categories.

While the U.S. continues to face reduced access to key export markets, Brazil is well-positioned to expand shipments to China, which could support a faster recovery. Despite record soybean harvests and favorable trade conditions, demand for larger equipment remains subdued due to the weaker crop prices.

That said, we are seeing early signs of recovery in the broader ag machinery market and expect continued improvement in Brazilian industry demand through the remainder of 2025.

And for combine sales, we saw declines across all three markets: - North America, Western Europe and Brazil, with North America experiencing the sharpest drop at 33% year-over-year. Despite these near-term normal industry challenges, AGCO remains well positioned for the long term.

Structural tailwinds, including global population growth, rising protein consumption, and increasing demand for clean energy solutions like sustainable aviation fuel and vegetable oil-based diesel, continue to support our outlook. Although geopolitical trade actions may shift the source of grain supply, they do not constrain the global demand for grain.

Our evolving precision ag technology stack with a focus on retrofitting almost any brand provides a differentiated competitive edge, helping farmers improve yields and meet the world's growing food needs.

Slide five outlines AGCO's factory production hours. To ensure year-over-year comparability, we've excluded grain and protein production hours from the 2024 baseline. Quarter two production hours were down approximately 16% compared to quarter two, 2024. Regionally, production was down in Europe, up in South America, and down over 50% in North America where we are hyper-focused on reducing dealer inventories.

Looking ahead, we still expect full-year 2025 production to be 15% to 20% lower than 2024 levels.

For the balance of the year, we will effectively be producing in-line with retail demand in most parts of the world with the exception of North America, where

we will continue to significantly underproduce as we continue to right size our dealer inventories. Reducing dealer inventory remains a top priority in light of soft market demand and elevated inventory levels.

We are in good shape for the second half of 2025 in Europe and South America and further work is needed in North America.

Looking at a regional inventory breakdown.

In Europe, dealer inventory remains just under four months of supply, in-line with our target. Fendt is below this average, while Massey Ferguson and Valtra are slightly above.

Overall, Europe's near-target inventory levels are a big positive given AGCO's significant exposure to the region and its stability.

Looking to South America, we made good progress, reducing dealer inventory to around three months of supply, with units down around 3% and months of supply down almost one month from March 31.

We are now at our target level.

In North America, dealer inventory units declined approximately 10% from quarter one, 2025, driven by significant production cuts.

However, inventory remains elevated at around nine months of supply above our six-month target, given a lower outlook. Given the continued challenging outlook, we expect to underproduce relative to retail demand for the balance of the year in North America.

Slide 6 highlights AGCO's three high-margin growth levers, which are central to our strategy to achieve mid-cycle operating margins of 14% to 15% by 2029, while also outgrowing the industry by 4% to 5% annually. These initiatives reflect AGCO's transformation into a more resilient, higher performing company, one that is not only targeting stronger mid-cycle margins but also delivering higher highs and higher lows across the business cycle, which we are clearly demonstrating in these past couple of years.

To reiterate the 2029 growth lever targets we shared at our Analyst Meeting last December. Number one, our Fendt globalization and full line expansion centers on scaling the Fendt brand across North America and South America with combined revenues expected to reach \$1.7 billion by 2029. Number two, our Precision Ag growth.

For that, we are targeting \$2 billion in global Precision Ag revenues driven by our retrofit-first strategy and the integration of advanced digital capabilities that enhance farmer productivity and profitability.

And third is our global parts expansion.

We aim to expand our Global Parts business to \$2.3 billion, with a focus on increasing the market share of genuine AGCO parts and improving service penetration, leveraging our FarmerCore strategy. These three levers are designed to drive sustainable, high-margin growth and position AGCO to deliver superior returns through the cycle.

AGCO's continued strong investment in R&D has earned recognition from leading global organizations, reinforcing our commitment to innovation and our Farmer-First strategy.

Slide seven highlights two award-winning technologies that exemplify this approach, each designed to enhance farmer profitability through improved efficiency, yield and ease of use. PTx OutRun is the world's only autonomous harvesting solution and was recently honored with a 2025 World Changing Ideas Award from Fast Company.

It is the first commercially available autonomous retrofit grain cart system designed to help farmers maximize yield and address the global labor shortage.

The OutRun kit enables autonomous grain cart operation and is currently compatible with competitive tractors, with Fendt compatibility coming in 2026. This breakthrough represents a major leap forward in harvest efficiency and smart farming.

On the equipment side, you have heard me say before that Fendt is the best of the best, and the Fendt 620 Vario is another example.

It continues to set new benchmarks in performance and efficiency.

It achieved the absolute best-in-class fuel efficiency in the DLG power mix test, recording the lowest diesel consumption in the 165- to 240-horsepower category.

Thanks to its VarioDrive transmission and Fendt low engine speed concept, the 620 Vario delivers unmatched efficiency and performance.

profi Magazine also praised the tractor for its exceptional field and road capabilities. These achievements are just a couple of the examples that reflect AGCO's commitment to delivering smart, farmer-first solutions that drive profitability, sustainability and ease of use.

I'd like to take a moment to recognize and thank the teams behind these innovations. Their efforts are helping AGCO fulfill its vision of being as farmers' trusted partner for industry-leading smart farming solutions.

On slide 8, you can see the details for our 2025 Tech Days in Germany.

We are looking forward to showing off our PTx portfolio and how it will solve farmers' problems in late September. The key to delivering better customer outcomes for our farmers is our Precision Ag business. The performance of our PTx business is improving across many areas.

We've been hitting our financial and operational forecasts consistently over the last few quarters.

Our margins, although at trough levels are improving.

We are seeing strong growth in channel sign-ups of dealers and are growing strongly throughout the world.

The conversion to PTx Trimble guidance receivers on AGCO Machinery is almost complete.

And our innovation engine is firing with the team on track to exceed more than 10 innovations in 2025, well ahead of plan.

We hope you will join us and look forward to seeing you there for a hands-on and up-close experience.

Now I will hand it over to Damon to walk you through some of our financial results from the quarter.

Damon Audia^ Thank you, Eric. And good morning, everyone.

Slide 9 provides an overview of regional net sales performance for the second quarter and first half of 2025. Net sales were down approximately 15% in the second quarter compared to the second quarter of 2024, when excluding the positive impact of currency translation.

For comparison purposes, the impact of the divestiture of the Grain & Protein business, which was approximately \$290 million in Q2 of 2024 has been excluded.

By region, the Europe Middle East segment reported sales down roughly 11% in the quarter compared to the same period in 2024, excluding the impact of favorable currency translation. Lower sales across most of the Western European markets were partially offset by growth in Eastern Europe and Scandinavia. Declines were largest in the high-horsepower tractors and combines.

South American net sales decreased approximately 5%, excluding the impact of favorable currency translation. Underproduction of retail demand drove most of the decrease. Lower sales of mid-range tractors, planters and sprayers accounted for most of the decline.

Net sales in the North American region decreased approximately 32%, excluding the impact of unfavorable currency translation.

Softer industry sales and underproduction of end-market demand contributed to lower sales. The most significant sales declines occurred in high-horsepower tractors, sprayers and hay equipment.

Net sales in Asia Pacific and Africa decreased 6%, excluding favorable currency translation impacts, due to weaker end-market demand and lower production volumes. Lower sales in Australia and China drove most of the decline.

Finally, consolidated replacement parts sales were approximately \$503 million in the second quarter, up 3% year-over-year on a reported basis, and down approximately 1% when excluding the impact of favorable currency translation.

Turning to Slide 10. The second quarter adjusted operating margin was 8.3%, a 200 basis points decline compared to the second quarter of 2024, but about 100 basis points better than our forecast. The weak industry conditions are resulting in significantly higher costs related to factory underabsorption and higher discounts.

However, our SG&A expense reduction program is helping to offset some of these volume-related pressures in helping us deliver a more profitable business in the trough year, as Eric mentioned.

The multiphase program is designed to reduce structural costs, streamline our workforce, and enhance global efficiencies by better leveraging AI, automation and global centers of excellence, while delivering better outcome for our farmers.

By region, the Europe Middle East segment income from operations decreased approximately \$34 million, while operating margins remain resilient at just under 15%. The decrease in income from operations was primarily a result of lower sales and production volumes and higher warranty costs.

North American income from operations in the quarter decreased approximately \$58 million year-over-year, and operating margins were negative in the second quarter. Lower sales from the weak market conditions and significantly lower production hours were the primary drivers for the lower operating margins year-over-year.

Operating income in South America increased by approximately \$17 million in Q2 of 2025 versus Q2 of 2024, and operating margins improved in the quarter to nearly 8%. This increase was primarily a result of improved factory efficiency and product mix.

Income from operations in our Asia Pacific/Africa segment decreased approximately \$1 million due to lower sales and production volumes.

Slide 11 shows our free cash flow year-to-date.

As a reminder, free cash flow represents cash provided by or used in operating activities, less capital expenditures. Free cash flow conversion is defined as free cash flow divided by adjusted net income. Through June of 2025, we generated \$63 million of free cash flow, approximately \$390 million more than the same period in 2024, when we had net cash outflows of almost \$330 million. This improvement was primarily driven by better working capital performance and approximately \$100 million lower capital expenditures year-over-year.

For the full year, we continue to expect free cash flow to be within our targeted range of 75% to 100% of adjusted net income.

Our capital allocation priorities remain unchanged, reinvesting in the business, repaying debt to maintain our investment-grade credit ratings and returning capital to our shareholders.

However, following the TAFE settlement, our Board of Directors approved a new \$1 billion share repurchase program, recognizing this ~~is~~ as a preferred method of capital return for many of our shareholders versus the special variable dividends we had issued over the last several years.

In addition to the repurchase program, we also recently declared our regular quarterly dividend of \$0.29 per share.

We remain focused on deploying capital in the most effective ways to drive long-term value for our shareholders, and we are excited given our increased flexibility related to the share repurchases.

Slide 12 highlights our current 2025 market outlook for our three major regions.

We've made modest adjustments to our forecasts for North America and Western Europe compared to the expectations shared on our first quarter call.

In North America, we continue to expect significantly lower demand in 2025 versus 2024.

While net farm income forecasts have improved due to government support, elevated input costs and uncertainty around export demands are pressuring margins and causing farmers to delay equipment purchases.

We now expect the small tractor segment to decline approximately 5% compared to our prior outlook of down 0% to 5%, and we maintain our expectations for the large ag segment to be down 25% to 30% year-over-year.

In Western Europe, we now anticipate industry demand to decline approximately 5% to 10% versus our previous forecast of around 5%. Persistent rainfall and unfavorable growing conditions have continued to weigh on wheat production across key markets. Combined with lower commodity prices and elevated input costs, this is putting further pressure on farm income, leading us to revise our outlook.

Our outlook for Brazil remains unchanged at flat to up 5%.

Strong soybean yields in the Midwest and favorable trade dynamics continue to support farmer optimism and retail demand for tractors.

Slide 13 highlights the primary assumptions underlying our current 2025 outlook.

We continue to anticipate 2025 global industry demand to be approximately 85% of mid-cycle.

Our sales outlook was increased modestly due to foreign exchange and still includes market share gains and pricing in the 1% range. Based on the year-to-date weakening of the U.S. dollar, we now expect around a 2% favorable foreign currency impact in 2025, revised up from our prior expectations of no impact.

Tariffs continue to create significant demand uncertainty and increased cost for us.

Our current full-year guidance reflects the tariffs currently in effect across our global markets, along with our anticipated mitigation plans through cost or pricing actions. That said, the potential for retaliatory measures or additional U.S. tariffs could influence our outlook.

We are closely monitoring these developments and remain nimble in our approach.

We will update our guidance as needed if the situation evolves.

Engineering expenses are expected to remain approximately flat compared to 2024.

With the continued need to reduce dealer inventories in the North American market, production hours are expected to continue to be down between 15% to 20% in 2025, as Eric mentioned earlier. These reductions were heavily concentrated in the first half of the year with more moderate adjustments expected in the second half, mainly in North America.

Despite ongoing geopolitical trade conflicts and uncertainty affecting our farmers around the world, we have revised our expected adjusted operating margin to approximately 7.5%, reflecting the upper end of our prior guidance range. This outlook remains achievable based on our demand outlook as well as the structural changes and cost initiatives implemented across the business.

We continue to view 2025 as the bottom of the trough, with our current margin projection approximately 350 basis points above AGCO's performance at the last trough in 2016. Lastly, our effective tax rate for 2025 is still anticipated to be approximately 35%.

Turning to slide 14 for our current 2025 outlook.

We have raised our full-year net sales forecast to approximately \$9.8 billion, up from \$9.6 billion previously, reflecting the current market environment and the continued weakening of the U.S. dollar.

Our 2025 earnings per share target has also been revised upward to a range of \$4.75 to \$5.00 compared to the prior range of \$4.00 to \$4.50. These estimates reflect the projected impacts of tariffs in place as of July 31, including the recently announced EU tariff of 15%, along with our planned mitigation actions.

Any changes to existing tariffs or additional trade measures could affect this outlook.

Based on our demand outlook, we have lowered our capital expenditures to approximately \$350 million, down from the \$375 million communicated in Q1 earnings call and compared to \$393 million in 2024. This level of investment still keeps AGCO well positioned to respond to future demand inflections.

Our free cash flow conversion target remains unchanged at 75% to 100% of adjusted net income, supported by continued focus on working capital management throughout 2025.

As Eric said, halfway through the year, we are pleased with our performance in this very challenging trough year.

Our teams around the world have navigated dynamic environments, grown share and remained intensely focused on reducing dealer inventories without compromising the needs of the farmers.

With our improved outlook for 2025, we view our current performance as another data point as to how we have structurally improved the profitability of our business regardless of where we are in the cycle. Lastly, our Q3 2025 net sales are expected to be approximately \$2.5 billion.

If you were to exclude Grain & Protein sales from Q3 2024, our sales would be up roughly 7% on a like-for-like basis.

We anticipate Q3 earnings per share to be in the range of \$1.20 to \$1.25, up significantly from Q3 of 2024.

With that, I will turn the call over to the operator to begin the Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question comes from Tami Zakaria with JP Morgan.

Tami Zakaria^ Very nice quarter. My first question is on the updated operating margin guide. Just wanted to make sure I understood what's implied.

So if all regions except North America, is going to produce to retail demand.

Shouldn't operating margin sequentially get better versus 2Q for the rest of the year?

Basically, I'm trying to understand what's implied in that 7.5% and what that means for 3Q and 4Q versus 2Q?

Damon Audia^ Yes. I think Tami, there is a seasonality to our business.

As you remember, Q2 is one of our stronger quarters. So Q3 will be a seasonally lower quarter and then Q4 will pick back up.

So if I think about the back half of the year, the way I would frame the operating margins is probably around 7.5% in Q3, given that lower seasonality, lower production and then a stronger quarter, a little bit over 9% to get you to that 7.5% for the full year that we have.

Tami Zakaria^ Understood. That's helpful color.

Then I think I heard Eric mentioned in the prepared remarks that demand for next year would be modestly higher in all regions.

I just wanted to understand, do you have order books open for next year?

What gives you the confidence or what underpins the expectation that demand could actually be higher in all regions next year?

Eric Hansotia^ Yes. We have our order books open, but they're not reaching into 2026 right now. Really what drove that comment, Tami, is that we've got our data scientists have built a forecasting model, and it looks at all different variables of farmer sentiment, crop prices, inventory levels, a number of things.

I think there's like 200 variables, and they assigned weighting on those variables based on their likelihood of predicting the future. That model is what we use to guide our expectations of the market demand, and it's pointing up in all of the regions for 2026.

And it's been highly accurate so far in 2025.

Now can things change between now and then with the tariff policies and things like that?

Sure. But with our best estimate of what we think will happen and the world is not certain yet, but it's getting a little more certain these days, that's why we made the forecast we did.

It lines up with a lot of what the rest of the industry is saying whether it's machinery or other parts of ag. They're saying 2025 is the trough at the very bottom and expectations will move up, that's backed by like the sentiment indicators in Europe with the CEMA barometer and the Purdue Index in North America, farmer sentiment index and both of those are up strongly over the last several months.

Operator^ The next question comes from Stephen Volkmann with Jefferies.

Stephen Volkmann^ Eric, I know your comments around sort of precision ag, and I'm curious whether you think the adoption that you're seeing now albeit in a weak market, is that actually ahead of your expectations?

Have you changed your view of kind of the slope of that adoption line going forward?

Eric Hansotia^ No. I'd say it's really coming out according to plan.

We're hitting our -- the PTx group overall, which is our overall tech business is hitting our forecast every month this year.

So it's delivering to plan, I wouldn't say we're raising our plan at this stage.

We're just delivering to it. It's a combination of the innovation flywheel. That's going really well.

I've been running this business now for the last six months and spending a lot of time with our engineers, with our salespeople, with the whole organization at the different sites out in the field.

So we've gotten to be really close to it. Innovation engine and the flywheel kicking out new innovations each year. We're ahead of schedule on that.

Then the other half is establishing the channel. We've got multiple paths to market. We have OEM partners.

We kept all of those and we're looking to grow them, setting up our AGCO dealers to be PTx dealers and then this full-line tech channel, and all of those, I'd say are going according to plan.

So happy with the business in a much better year this year than last.

Stephen Volkmann^ Great. Okay. Great.

Then just a follow-up unrelated, I guess but your TAFE agreement, I certainly understand your ability to buy back shares there.

But is there kind of more to it there than you think we should keep in mind?

Eric Hansotia^ Well I think this is a huge win for AGCO and its shareholders. This -- this agreement is very, very robust.

It allows the two companies to part ways and go their own way.

We can cash out of our ownership stake in TAFE, that brings in \$260 million in cash.

It removes the TAFE member from the AGCO board. It allows us to be very, very focused on the core of our strategy.

It's the last piece in the overall structural changes we made. We exited Grain & Protein. We brought in PTx Trimble to form the overall PTx business.

We've now resolved all of the TAFE issues that were a big distraction, that's now behind us.

We are in full implementation mode on Reimagine and we are in full implementation mode on FarmerCore. Those are the five pieces we've been wanting to establish to structurally get the AGCO we wanted to get.

Now we've got it. We can focus on right at the core of our business to be super innovative and farmer focused, and we've minimized a lot of our distraction.

So high focus, low distraction.

We think it's a great outcome for our management team and our shareholders.

Operator^ The next question comes from Tim Thein with Raymond James.

Timothy Thein^ Great. Eric, just to continue on that line of thought there. Just in terms of capital allocation, with the, call it, I guess about \$600 million of proceeds between the TAFE proceeds as well as the, call it, \$300 million to \$350 million of free cash flow. Just how you're thinking about capital allocation and specifically kind of the buyback cadence relative to that new authorization?

I know there's other things that we have leveraged and other things to balance, but maybe just maybe some high-level thoughts as to how you're thinking about the timing of that buyback program?

Eric Hansotia^ Yes. Actually, I'm glad you raised that.

I should have answered, Steve. I should have inserted that into Steve's question.

But there's -- the size of this business wasn't so huge, but what it unlocks is I've talked about the focus, I talked about distraction, but it also gets us on the path of what almost all of our investors have been asking for, for the last five years.

As I met with investors, they'd say we much prefer share buybacks than this special variable dividend.

But that's all we could do for this period because of the framework that was there, we had a shareholder concentration with traffic.

Now, that's gone. That's behind us.

And so, we're now free to operate the way our investors would want us to.

So as Damon talked about in his comments, our priority is supporting the operating needs of the company through capital and R&D investments, then looking at opportunistic M&A.

But now we can move in that share buyback opportunity and you raised two of the topics and we're looking at some others to be able to get our free cash back to investors in the form of share buybacks. That's moved way up the list, we know that investors want that more than this special variable dividend.

So that's going to be our primary vehicle going forward after our operating needs are met.

We'll -- we don't have specific timing in terms of -- that was the other part of your question.

It's really going to be contingent on when those cash flows become available. When we get the money in, then we can talk about how we get it back to shareholders.

We're not wanting to get out in front of our headlights on this.

Timothy Thein^ Okay. Understood.

Then maybe just on the topic of production hours, and you highlighted several times how the status of inventory reduction in North America where that's heading.

But I'm just curious, are the -- what you've seen and what you are seeing in the dealers are commenting in terms of the early order patterns in North America.

Is that informing you at all in terms of how you're thinking about 4Q production outlook.

Maybe just a thought on that.

Eric Hansotia^ You bet, early order programs for AGCO don't really start until the middle of August.

So we will learn more here soon. When I -- when we talk to dealers, we were just out visiting some dealers here recently, there's cautious optimism.

I was just with a group of farmers and dealers last week, and it matches the sentiment indicator from Purdue in North America, and that is that -- they believe that this -- essentially the tariff situation and uncertainty will get resolved.

Then ultimately, the administration cares a lot about farmers and will figure out a way that it's positive for farmers.

And so, there's some cautiousness in the market today but they don't expect that to last forever.

So as the playing field gets more clear, I think that will unlock confidence. The market wants to be able to buy -- we want to come off the bottom.

The fleet age is getting older and older now for about two years. There are -- for the new technology they want to get in the market.

They just want a lot more certainty.

Operator^ The next question comes from Jamie Cook with Truist.

Jamie Cook^ Nice quarter. I guess two questions. One, there's a lot of debate on 2026 and the market outlook.

But I guess I'm more interested in the factors that AGCO can control to grow earnings next year.

So assuming a flat market, Eric or Damon, what do you think the biggest buckets are in terms of your ability to grow earnings, whether it's restructuring, repo, producing in line with retail, just your confidence level there that if the market is flat next year, it still implies that AGCO's earnings are trough in 2025 and growing?

Then I guess my second question, just given the excess inventory that we have in North America, understanding you're underproducing that, that's what drove the losses in the first half of the year. Just what are you assuming in the back half of the year for North America, like when do the losses stop?

Damon Audia^ Yes. Sure, Jamie.

So for 2026, again, using the assumptions that you outlined, I think the two biggest drivers that would enhance the margins in 2026.

One would be the underproduction lapping that next year, again as we're already starting to produce to retail in South America and in Europe, as Eric alluded to, we're working hard to get North America.

I've said in some of my comments in the prior quarters, today we have about over 1% headwind related to this under-absorption embedded in our margins.

So if we were simply producing the retail, I think you're looking at sort of that sort of level flowing back into the system. So that would be the top one.

The second one the restructuring actions. Again we've said, by the end of this year, we should be run rating somewhere in that \$100 million to \$125 million range.

We've said there's about an incremental \$60 million this year.

So I will get a little bit more next year.

I've also identified that \$75 million that I would run rate by the end of next year, some of that will be incremental to the P&L in 2026 as well.

So you're going to get a little bit of '25 rolling into '26 and the '26 execution starting sort of mid-year -- so I think those are the two big variables.

I'm not going to speculate on what we do with repurchases, as Eric alluded to, we're eager to jump into that.

But how much we do and how fast we go, I would say would be upside to what we do from the core operations.

Operator^ The next question comes from Kristen Owen with Oppenheimer & Company.

Kristen Owen^ I just want to follow up on the cadence of the production hours in the second half of the year because it looks like you're now anticipating that your production will be roughly flat in 3Q and maybe down a little bit more than what the original production outlook was for the year.

So I'm trying to square that with your operating margin outlook that you provided in the first question.

I think the most helpful way of asking this is, can you give us a little bit of color where that margin cadence is for, say Europe relative to South America, North America for the rest of the year?

Damon Audia^ Yes. Sure, Kristen. And maybe I'll try to weave in Jamie's second question is we didn't get to answer her North American, one so I'll try to weave that in as well.

I think when you look at the production hours Q3 and Q4, you have got to remember last year, this is sort of in a year-over-year comparison.

You may remember last year, we took an elongated shutdown in Europe given what we were trying to do with dealer inventory there.

Then we sort of moved production back up in Europe in the fourth quarter.

So when we're looking at the Q3 production, what you're seeing is Europe actually being up sort of, I'll call it, call it low teens. North America will be down over 50%, and then you'll have some improvement in South America in Q3, and then because of that, what I did last year in Europe, and I move into Q4, again I'm still expecting North American down a lot, but South but Europe will actually likely be down a little bit, just again given more of the year-over-year comparisons.

So that's sort of why you're seeing the change in the production hours here between Q3 and Q4 versus our last assumption.

When I look at the margins here, again for Europe, I think we're looking probably something relatively similar to Q2. So as I think about Q3, probably right in that same range.

Then as we get the higher volume as we see in our fourth quarter, we would see the European margins pick up a couple of percent from the Q3 level.

So again, more of that sales driven margin in Q4.

For North America, as I alluded to, with the production being down over 50% in Q3 and probably down over 50%, again in Q4 as we look to rightsize dealer inventory, we still see that position in a loss.

We still see the North American margins being negative. And again given the Q2 is a strong seasonal quarter for them as we move into Q3 and Q4, which are lower revenue quarters, I would say that those losses could be right around 10%, 11% range, if not a little bit more, depending on the ultimate sales.

Kristen Owen^ Okay. That is incredibly helpful.

Then my follow-up question, just tying back to your comments on parts sales and just servicing the existing fleet, both with the aftermarket technology and parts and services. Just can you expand on what's helping support that?

And any color that you can provide on how that's impacted PTx Trimble sales in the quarter?

Damon Audia^ Yes. I'll touch on some of the general things of what we're seeing with parts and then maybe I'll ask Eric to elaborate a little bit on FarmerCore which has been a catalyst for here in North America.

But I think overall parts sales has been relatively resilient.

As I said in my comments, it was up around 3% when you look at the quarter year-over-year.

I'd say it's a little bit following the regional pattern where Europe has continued to do quite well.

South America is recovering. North America was a little bit more of a challenged market. Again I think as Eric talked about his comments, we're seeing a lot of hesitation.

I think there's some optimism for the future, but at least right now given the uncertainty, I'd say our geographic weighting of parts has been a little bit more challenged in North America.

But what we are seeing in the penetration rate relative to FarmerCore is giving us that optimism that as these markets start to stabilize as farmers get more comfortable, we definitely see the opportunity for parts to continue that annual growth that we've seen.

But maybe I'll let Eric touch about -- touch on FarmerCore and how that's contributing to parts as well.

Eric Hansotia^ Yes. There's a few elements of FarmerCore.

If you remember, that's our strategy to -- instead of the farmer having to come to a brick-and-mortar store where the farmer comes to the business, in this case, FarmerCore means we're going to -- the business is going to come to the farmer.

So digital tools like online configurator to configure the machine or ecommerce. Ecommerce is allowing our parts sales to grow significantly.

It's one of our fastest-growing businesses right now. Oftentimes, the farmer is looking for a part of ours.

When they look for a part, they're buying a bigger order than they would have if they would have just gone into the store because we can do recommendations and things like that.

So, it's not only more convenient, but it's also capturing more of the farmer wallet. We're using AI chatbots to assist dealers with spare parts inquiries and make that job a lot easier and more accurate for the farmer.

And so there's a lot of activities going on relative to parts directly, but then overall FarmerCore, we've put in place 25 -- our dealers have put in place 25 new store formats last year and on track to do that again this year.

We've implemented over 140 of those new service trucks that we've shown you before, where the work comes out to the farm and all the work that gets done on the farm.

So, all of these feed together, whether it's the digital tools, the new ways of interacting, there different footprint of our dealers, all to be way more convenient than most farmer-focused distribution network in the industry, and that helps with parts sales because it's -- on the one hand, it's more convenient and it captures more of the farmer's wallet.

So we're continuing to believe that's the right strategy for the farmer and helps grow AGCO's high-margin business.

Operator^ The next question comes from Mig Dobre with RW Baird.

Peter Kalemkerian^ This is Peter Kalemkerian on for Mig this morning.

A two-part question here on share gains.

First part, is there any way to quantify what's embedded in the full year guide for '25 from that share gain component?

And second, is there any color that you might be able to provide on what you're seeing with shares specifically on Fendt in North America, just thinking U.S. here tariffs are obviously a factor with Fendt product which I assume Fendt might be priced a bit higher on a relative basis to some other machines in the marketplace compared to where they were at in a tariff-free environment.

So correct me if I'm wrong on that last point.

But yes, any way to quantify the share gain component of the guide?

Then any color on the Fendt rollout in North America would be helpful.

Damon Audia^ Yes. So Peter, we don't really break down share specifically by brand or by region.

I can tell you we are -- if we look at our three different brands, the teams have done very well in gaining share in all of the regions. Again if you remember last year, Fendt had an exceptionally strong year, gained a lot of share, and they've done very well year-to-date holding that in Europe, Massey and Valtra also gaining South America, the team has done really well across the brands gaining share.

In North America here, again the industry is down quite a bit.

But when you look at the actual share for several of the different Fendt products, we're actually seeing the share tick up year-to-date.

Now again, you raised a great question that as we think about the implementation of these tariffs, how will that affect our pricing strategy relative to the competition. Again you heard from Eric, Fendt is the best of the best.

We know that it delivers better fuel efficiency, better performance of the farmers, but we've got to make sure that that value relative to the alternative fits what the farmer needs.

I think that's what we're going to work through here.

We have announced some price increases in North America related to parts related to PTx and for our model year '26 branch.

But again we're going to see how this unfolds over the next six months and make sure that we continue our strategy of growing Fendt because we know farmers in North America deserve the best of the best, and that's what Fendt offers them, and we want to make sure that they have that available.

Eric Hansotia^ And let me just build on that a little bit. Everything you said is spot on.

I want to talk about the pricing strategy of AGCO, and I think of our competitors based on what we can see and hear from them, there's two separate topics. They're not tied together.

One topic is how much cost comes into the company because of tariffs on certain products coming from certain countries into new markets?

We gather all that up and so do our competitors.

Separately is, how do we put -- how do we manage those costs.

So my point here is, just because a certain product is incurring a tariff, it doesn't mean that we put price on that product the same way.

We manage price separate from cost.

So we could have certain products -- all of our competitors and us have certain products that are going to be more expensive in markets, whether they came from Indonesia or Japan or India or Germany wherever or Brazil.

So -- but we're all seeing now where do we put the price. It could be some in North America. It could be in other markets. It could be on the products that got tariffs, it could be on all products.

It most often is not just on the products that incurred the tariff because you want to keep the overall portfolio in balance with the rest of the market.

So it's much more of a spreading across the whole portfolio and the whole globe versus just where the tariffs were incurred.

Operator^ And was there a follow-up to your question?

Peter Kalemkerian^ No. That was super helpful color, guys.

Operator^ The next question comes from Kyle Menges with Citigroup.

Kyle Menges^ I don't think you guys actually quantified the change in tariff impact in the EPS guide.

So I guess that would be helpful. Just how that influenced the change in the EPS guide.

Then just now that we have an EU trade deal, any update on how you're feeling about production footprint and pricing you might need to take to offset tariffs?

Damon Audia^ Sure, Kyle.

So if I think about the change in our guide, which was \$4.00 to \$4.50, now \$4.75 to \$5.00.

I guess the way I would walk that change is, we beat Q2 by around \$0.30, the FX that we've now moved to a 2% positive is around a \$0.45 positive.

We've weakened the industries in Europe and in North America, small ag, I would say that's about a \$0.25 headwind. The incremental tariff costs, I remember at the

end of the first quarter, I quantified the net tariff cost at around \$0.30 to us from an EPS standpoint, that's now around \$0.45.

So an incremental \$0.15 headwind.

Then we have some other positives in the numbers that get us to the \$4.75 to the \$5.00. The \$0.15 incremental related to tariffs is really driven by two things.

One is as we've gotten better clarity with certain tariffs of EU at 15%, what we're seeing with Indonesia, Japan, some of the places that we import these -- our products, we've rolled those through. So that's been a negative.

The other headwind is as we have announced some pricing actions.

As I mentioned on a prior question, we've announced pricing actions for parts for PTx as well as for our equipment group, some of that pricing is going in a little bit later than what we had originally anticipated.

So there's more of a delay of that pricing dropping to the bottom line.

Those two together are creating a little bit more of an EPS headwind related to the tariffs, as I said, to the extent of around \$0.15.

As it relates to the overall pricing, I think Eric just touched on some of the comments, now that we have clarity on how the EU tariffs are going to affect our production, we'll see how that compares to the competitive landscape relative to the value proposition that we offer the farmers and we'll adjust accordingly. From a production standpoint, again we do review our production footprint on a regular basis as we think about our volume growth, as we think about our long-term share and where we're going to be making or selling those products, we always step back and say is there a lower cost alternative for us to service the farmers the right way.

Now that we're getting some more clarity on this, we'll revisit this as we do on a regular basis.

I don't anticipate any sort of near-term changes given the market environment, given the demand.

But it's something we're going to make sure that we're constantly assessing to keep our costs as low as possible.

Kyle Menges^ Very helpful.

Then I guess another question on the production hours and just kind of trying to square that with some of the other comments you guys made.

I mean the guidance for production hours for the year was unchanged.

But, did bring down industry retail outlook for North America and Europe a little bit. Then I guess squaring that with some of the inventory comments.

It sounds like just quarter-over-quarter, no change to Europe, dealer inventory.

South America, I guess you reduced by a couple of months, but that North America inventory sounds like actually increased by 0.5 month sequentially.

So maybe just trying to square no change to production hours with some of those other comments in guidance?

Damon Audia^ Yes. So again remember, our inventory outlook is a 12-month forward look. In the low horsepower change, we really don't make much of that. That's third-party produced products that we buy.

So that's not going to have a big driver on our production hours.

Then when I look at the change in Europe, I would say again relatively modest tweak and what you saw us change in Europe is sort of offset here by the sort of an increased level of production cuts in North America.

So it's sort of a netting of what we're seeing to keep our -- to stay within the 15% to 20% range.

Operator^ The last question today will come from Steven Fisher with UBS.

Steven Fisher^ You mentioned the – obviously, the \$0.30 beat in the quarter.

Can you just bridge or break that down onto the key drivers were there?

Then the second question is wondering if you could just give your perspectives on the potential changes to the ag policy in Europe and how influential these policies might be relative to just kind of core ag fundamentals?

Damon Audia^ Yes. I think Steve, at the high level, the highest level, the beat was heavily driven by slightly better volumes across most of the regions and a little bit better mix. That was the vast majority of the beat and then cost savings came in a little bit better.

But I would say the vast majority was the overall volume.

Then on the ag, Eric, you want to take that one.

Eric Hansotia^ Sure. We keep our eyes on that real closely. That's just a proposal.

It's not a policy yet. The farm groups are all pushing back pretty strongly.

If you look what happened on diesel tax or on some of the regulations that were proposed for some of the green deal in Europe, farmers pushed back pretty hard and then there's a balancing point that was found on all of those.

I think that's going to happen again here.

So this is a starting point of the discussion. There will be a lot of negotiations and challenges back and forth, and I think we'll end up in a reasonable place in the end.

But we'll have to see where all that shakes out.

It's too early to tell.

Operator^ This concludes our question and answer session.

I would like to turn the conference back over to Eric Hansotia for any closing remarks.

Eric Hansotia^ Thank you for joining us today and for the thoughtful questions throughout the call. AGCO continues to make meaningful progress in our transformation journey, building on the momentum we established in 2024, particularly with the launch and expansion of our PTx Precision Ag platform, but it's really -- that's a big part of our five-piece puzzle, Grain & Protein out, PTx Trimble in, the build of PTx, the TAFE issue resolved, Reimagine project, leveraging AI is in full implementation and FarmerCore is in full implementation. These all together allow us to have the AGCO that we've been wanting, gives us more focus as a leadership team, less distraction, all able to accelerate our execution.

We already delivered solid performance in the second quarter despite ongoing global trade uncertainty and soft industry demand.

We made further strides in cost reduction and inventory management, both of which remain key priorities for the remainder of the year.

Those are in our control, and we're hyper focused on executing.

Our long-term success is anchored in the execution of our Farmer-First strategy. The entire organization is passionate about this and our dealers and farmers appreciate it.

We remain focused on growing our margin-rich businesses that we've talked about from the beginning, globalizing Fendt, parts and services and precision ag, while maintaining disciplined cost management.

To close, our updated financial outlook reflects our confidence in the strategy and the strength of our global team. Even in a challenging environment, we are investing in the future, gaining share and executing with agility. That is why we announced the \$1 billion share buyback, the largest in our company history.

We are bullish on the future of AGCO. To our shareholders, thank you for your continued support.

We look forward to building long-term value and advancing our Farmer-First strategy.

Have a great day.

Operator^ Thank you for joining the AGCO earnings call. The call has concluded.

Have a nice day.