

AGCO Corp (Q1 2025 Earnings)
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Corporate Speakers

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

Participants

- Jamie Cook; Truist; Analyst
- Kyle Menges; Citigroup; Analyst
- Kristen Owen; Oppenheimer; Analyst
- Jerry Revich; Goldman Sachs; Analyst
- Stephen Volkmann; Jefferies; Analyst
- Tami Zakaria; JP Morgan; Analyst
- Steven Fisher; UBS; Analyst
- Timothy Thein; Raymond James; Analyst

PRESENTATION

Operator^ Good day and welcome to the AGCO First 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.

Please go ahead.

Greg Peterson^ Thanks. And good morning. Welcome to those of you joining us for AGCO's First Quarter 2025 Earnings Call.

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

The non-GAAP measures used in the slide presentation are reconciled to GAAP measures in the appendix of that 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 the timing of those benefits.

We'll also cover 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, the possible failure 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 business in a manner that would produce the expected financial results, introduction of new or improved products by our competitors and reductions in pricing by them, 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 the 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. The AGCO disclaims any obligations to update any forward-looking statements, except as required by law.

We will make a replay of this call available on our corporate 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 on the call.

I'm pleased to announce AGCO delivered solid results in the first quarter in the midst of a very challenging industry and an uncertain and evolving trade environment.

We achieved over \$2 billion in net sales, down approximately 30% compared to quarter one, 2024. The lower net sales are a result of continued soft demand in the ag market. coupled with our efforts to destock dealer inventories as well as the impact of the divestiture of the grain and protein business.

Excluding last year's grain and protein results, sales declined by about 25%. The Consolidated operating margins were 2.4% on a reported basis and 4.1% on an adjusted basis, reflecting

decremental margins in the low to mid-20% range. This reflects the strong performance from our teams around the world. They are executing on our sales plans as well as on the restructuring actions.

We achieved these decremental margins despite a 33% reduction in production hours versus quarter one 2024 as we look to better align dealer inventories.

We've made headway lowering both working capital and dealer inventories, which were down across all regions.

Our working capital progress showed up in our cash usage for the quarter, which was significantly improved compared to the first quarter of 2024.

Sentiment in Europe, as measured by the CEMA index is on an upward trend. Europe currently represents the majority of AGCO's sales and should help mitigate the adverse impact of the U.S. trade policy on our financials. Geopolitical uncertainties and trade frictions have dampened U.S. farmer sentiment recently.

And as a result, demand for machinery was lower in the quarter than we had expected. Despite higher net farm income forecast related to government aid, margins for U.S. farmers remained tight due to high input costs and reduced export demand.

On the flip side, South American farmers are expected to expand global share in key commodities over the next year due to trade policies.

Our top priority during the geopolitical uncertainty is to take care of our farmers.

We want to be there to help them be more productive and more profitable by leveraging our industry-leading solutions.

We will continue to monitor the rapidly changing tariff policies and implement pricing actions or supply chain adjustments where it makes sense and is feasible. AGCO continues to focus on its three high-margin growth levers by investing in key strategic markets and products including smart farming solutions and enhanced digital capabilities to help deliver more resilient and higher earnings across the ag cycle.

Our financials continue to be weighted toward the second half of the year as we expect the market to find bottom and start recovering along with optimizing dealer inventories.

Slide four details industry unit retail sales by region for quarter one, 2025.

The global industry retail sales of farm equipment remained challenged in North America and Europe with some early signs of recovery in Brazil.

In Western Europe, industry retail tractor sales decreased 17% during the first three months of 2025 compared to the first three months of 2024. You'll recall that last year at this time we were still seeing relatively strong demand.

Industry demand is expected to remain soft in 2025 as lower income levels pressure demand from (inaudible) farmers while healthy demand from dairy and livestock producers is expected to mitigate some of the decline. North America industry retail sales decreased 14% during the first three months compared to the first three months of 2024.

Sales declines are relatively consistent across the horsepower categories with higher horsepower categories declining more in recent months. Combined unit sales were down 46% compared to the same period in 2024.

Uncertain demand for green exports and higher input costs are expected to pressure industry demand in 2025, leading to weaker North American sales compared to 2024, particularly in large equipment. Brazil industry retail sales increased 11% during the first three months of 2025 compared to the first three months of 2024, primarily in the smaller tractor categories.

While the U.S. may face reduced market access for key exports, Brazil is likely to ship more to China, which should help the industry recover faster. Despite record soybean harvest and potential trade benefits, we haven't seen meaningful improved demand for larger equipment yet.

If increased trade benefits farm economics, we could see improved demand later this year.

For now we expect industry demand in Brazil to improve modestly in 2025. Regardless of the near-term trade environment, AGCO will benefit from the long-term growth of the Agricultural Equipment segment, thanks to market expansion stemming from population growth and a middle class with diets that consists of greater amounts of protein.

Our tech stack has been evolving significantly over the past few years and allows us to provide farmers with a differentiated precision ag solutions needed to raise yields and meet the world's growing agricultural needs. AGCO's factory production hours are shown on Slide 5.

To improve comparability, we have eliminated green and protein production hours from the 2024 hours shown here.

Significant production cuts were made in all regions in quarter one, 2025, with the biggest reductions occurring in North and South America.

Our production hours were down approximately 33% in quarter one, 2025, and versus quarter one, 2024.

We remain laser-focused on reducing dealer inventories as quickly as possible in 2025, given the current soft demand environment and elevated dealer inventory levels.

As I mentioned earlier, we have made progress in destocking the dealer channel in the first quarter, but still have work to do, primarily in North America and South America.

We are projecting 2025 production hours between 15% and 20% lower than 2024, with the North America region showing the biggest decline.

Our plan remains front loaded and aggressive to get inventory rightsized quickly.

Our current outlook for 2025 assumes production in North America and South America will be less than retail demand. Diving into regional breakdown.

In Europe, dealer inventory reduced modestly to just under four months, which is in line with our target.

Fendt is still below this average and Massey Ferguson and Valtra are slightly above.

Our near target dealer inventory level in Europe remains a positive for AGCO given significant exposure to this region.

In South America, we reduced the number of units on hand at dealers by 7% from the quarter four, 2024 level, reducing the months of supply from around five months to approximately 4%. Given the forward outlook, this is still above our targeted level of three months.

We still anticipate to underproduce relative to retail demand in the second quarter to further reduce dealer inventory levels.

Similarly, in North America, we further reduced the units on hand at dealers by approximately 1% and in total from quarter four, 2024 levels. This is still approximately 8.5 months of supply versus our 6-month target.

However this modest change is reflective of good momentum in large ag will reduce inventory by around two months and around 7% on a unit basis. This solid progress was offset by the normal seasonal position for small ag equipment entering the peak selling season for dealers. Given the continued challenging outlook in 2025, we currently expect to underproduce to retail demand into the third quarter.

Moving to Slide 6, where you'll see our three high-margin growth levers aimed at improving our mid-cycle operating margins to our new target of 14% to 15% by 2029 and outgrowing the industry by 4% to 5% annually. This demonstrates we are a much stronger company that has less variability throughout the business cycle, higher mid-cycle, but also higher highs and higher lows.

To reiterate our 2029 growth lever targets, we discussed at our Analyst Meeting last December; number one, the globalization and full-line product rollout of our Fendt brand, where we now expect North and South America and revenues to reach \$1.7 billion; number two, growing our precision ag sales to \$2 billion globally; and number three, focusing on accelerating our global

parts business and increasing the market share of genuine AGCO parts to achieve approximately \$2.3 billion in global sales. AGCO's continued strong investment in R&D has been recognized by numerous global organizations with awards and illustrates how we innovate to put farmers first.

On slide 7, you'll see a few of the products that have won prestigious awards recently, each aim to help farmers improve their profitability through lower costs or increased yields, while also focusing on the ease of use and operator comfort.

The first is our PTx Trimble outrun retrofit autonomy kit, which was awarded the esteemed Davidson Prize for the absolute most innovative products of the year.

Outrun is the first commercially available autonomous retrofit green cart solution on the market and is recognized for its ability to help farmers maximize yield and combat the labor shortage many farmers are facing around the world. This is just the first of several retrofit autonomous solutions being developed by the PTx team. The Valtra S Series, which was the brand's flagship product, has won three major design awards in just a few months since launch; a good design award, an IF Design award and now the prestigious Red Dot Award for product design. This hat-trick has never before been achieved by any tractor brand.

Red Dot judges were so impressed with the S-Series design and attention to user experience that they awarded the tractor the Red Dot Best of the Best award. This special recognition is the highest distinction in the competition and is only awarded to the truly pioneering designs.

Finally, the Massey Ferguson 5M Series Tractor was awarded with its own Red Dot Award for product design. This affordable and versatile tractor was recognized by judges for its straightforward and accessible features, high performance and efficiency with the best value for price.

I want to take a moment to thank the teams that earn these awards, helping AGCO deliver on our vision of being farmers' trusted partner for industry-leading smart farming solutions.

Now I'll hand it over to Damon to walk you through some of the financials for the quarter.

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

Slide 8 provides an overview of regional net sales performance for the first quarter. Net sales were down approximately 25% in the first quarter compared to the first quarter of 2024 when excluding the negative effect of currency translation and the positive impact of acquisitions.

For comparison purposes, the impact of the divestiture of the grain and protein business, which was approximately \$200 million in Q1 of 2024 has also been excluded. Pricing in the quarter was roughly flat compared to the first quarter of 2024.

Positive pricing in North America mostly offset negative pricing in South America and in Europe.

By region, the Europe/Middle East segment reported sales down roughly 23% in the quarter compared to the strong results in the same period in 2024, excluding the impact of unfavorable currency translation and favorable impact of acquisitions.

Sales were lower across most of the Western European markets, partially offset by growth in Spain and Eastern Europe. The products showing the most significant declines were high horsepower and mid-range tractors as well as hay equipment.

South American net sales decreased approximately 6%, excluding the impact of unfavorable currency translation and the favorable impact of acquisitions.

The market for larger equipment continues to be challenged, and we continue to underproduce relative to retail demand. Lower sales of high horsepower tractors and planters accounted for most of the decline. Net sales in the North American region decreased approximately 34%, excluding the impact of unfavorable currency translation and the favorable impacts of acquisitions.

Softer industry sales and underproduction relative to end market demand contributed to lower sales. high-horsepower tractors, sprayers and combines saw the largest declines.

Net sales in Asia Pacific, Africa decreased 38%, excluding the favorable currency translation impacts and the favorable impact of acquisitions due to weaker end market demand and lower production volumes. The most significant declines occurred in Australia, Japan and China.

Finally, consolidated replacement part sales were approximately \$433 million for the first quarter, flat year-over-year on a reported basis and up approximately 3% year-over-year when excluding the effect of unfavorable currency translation.

Turning to slide 9. The first quarter adjusted operating margin was 4.1%, a decline of 550 basis points compared to the first quarter of 2024.

The weak industry conditions are resulting in significantly higher costs related to factory underabsorption and higher discounts.

By region, the Europe/Middle East segment income from operations decreased by \$141 million and operating margins decreased to just over 11%. The lower margins resulted from reduced sales volume, factory under absorption and increased discounts. North American income from operations in the quarter decreased approximately \$48 million year-over-year, and operating margins were negative in the first quarter. Lower sales from weak market conditions and lower production hours were the primary drivers for the lower operating margins year-over-year.

Operating income in South America decreased by approximately \$10 million in Q1 of 2025 versus Q1 of 2024, and operating margins remained positive in the quarter at roughly 1%. Market conditions in the region have continued to remain weak, and we have reacted with significant production cuts now for six consecutive quarters.

Income from operations in our Asia Pacific/Africa segment decreased by approximately \$12 million due to the lower sales volumes.

Slide 10 shows our year-over-year free cash flow.

As a reminder, free cash flow represents cash used in or provided by operating activities less purchases of property, plant and equipment.

Free cash flow conversion is defined as free cash flow divided by adjusted net income.

We used \$260 million of cash in the first quarter of 2025, approximately \$205 million or 44% less than the first quarter of 2024, primarily related to improved working capital and lower capital expenditures.

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

Our capital allocation plan includes reinvesting back into our business, repaying debt to maintain our investment-grade credit ratings and rewarding investors with direct returns with our regular quarterly dividend of \$0.29 per share.

We remain focused on deploying capital in the most effective ways for the benefits of our shareholders.

Slide 11 highlights our current 2025 market forecast for our three major regions. All three regions have changed modestly from what we communicated on our fourth quarter call.

For North America, we expect demand to be meaningfully lower in 2025 compared to 2024. Despite net farm income forecast revising higher related to government aid, farmers are delaying equipment purchases due to still elevated input costs and uncertain export demand causing tighter profit margins.

We now expect the large ag segment to be down around 25% to 30% versus 2024, which is a marginal deterioration from our prior forecast.

The small tractor segment is expected to be down between 0% to 5% after several years of significant decline.

For Western Europe, we expect the industry to be down approximately 5% compared to our prior forecast of down 0% to 5%.

Weak production has been negatively impacted by persistent rain and poor growing conditions. Decreased commodity prices and elevated input costs are also pressuring farm income.

For Brazil, after the significant decline we saw in 2024, we now expect the market to be up 0% to 5% versus our prior forecast of the industry being flat year-over-year. Farmer optimism around healthy soybean yields in the Midwest, and the expectation for farmers to expand global share in key commodities due to trade policies is expected to support retail demand for tractors.

Slide 12 shows our primary assumptions used in our current 2025 outlook.

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

Our sales plan includes market share gains and pricing in the 1% range, which is up from the flat to 1% range communicated on our fourth quarter call.

Additionally, based on the weakening of the U.S. dollar, our expectation now is for no foreign currency impact in 2025 versus 2024, which has been revised up from the 3% foreign currency headwind we had communicated previously.

Tariffs are creating significant demand uncertainty and increased cost for us.

Our current full year guidance takes into consideration only the tariffs currently in effect across the company's global markets and our anticipated plans to mitigate them through potential pricing actions or cost mitigation actions. That said, the potential for retaliatory measures or additional U.S. tariffs, particularly targeting the EU, could influence our current outlook.

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

We will update our outlook, if necessary, as the situation evolves. Engineering expenses are expected to be approximately flat compared to 2024.

With the continued need to destock the dealer inventory channel, our production hours will be down 15% to 20% in 2025, as Eric mentioned earlier. These production cuts will be primarily focused in the first half of 2025, with the second quarter down 15% to 20%.

With this lower level of sales and production in 2025, and despite geopolitical trade conflicts, we still expect our adjusted operating margin to be between 7% and 7.5%.

With the structural changes we have made to our business, coupled with the cost initiatives we've implemented, we continue to view this outlook as achievable.

We are still projecting 2025 to be the bottom of the trough.

Our current adjusted operating margins projections is approximately 300 to 350 basis points above AGCO's performance at the last trough in 2016 due to the structural transformation that has been implemented across the company. Lastly, our effective tax rate is now anticipated to be approximately 35% for 2025, which is at the lower end of the 30% to 35% range previously communicated.

Turning to slide 13 for our 2025 outlook.

Our projected net sales, capital spending and free cash flow targets remain unchanged from those communicated at the start of the year.

Our full year net sales outlook is \$9.6 billion, which reflects the market environment, the weaker U.S. dollar, the elimination of the grain and protein sales and the softer demand resulting from the announced tariffs across the company's global markets, net of our planned mitigation actions.

Our 2025 earnings per share remain in the \$4 to \$4.50 range. These full year estimates reflect the projected impact of tariffs in place as of May 1, 2025, along with our planned mitigation actions.

Changes to the tariffs or other actions in response to them could result in a change to these estimates. Given the weaker market environment, our estimated CapEx spending continues to be approximately \$375 million versus the \$393 million in 2024, which keeps AGCO well positioned for any future demand inflections.

Our free cash flow conversion target remains 75% to 100% of adjusted net income as we look to further reduce working capital in 2025. Lastly, our Q2 2025 net sales are expected to be approximately \$2.5 billion.

If you were to exclude Grain & Protein sales from the Q2 2024, our sales will be down roughly 17% on a like-for-like basis.

Given the lower sales volumes and significant reduction in production hours again we anticipate Q2 earnings per share to be in the \$1 to \$1.10 range.

On slide 14, you can see the details of our 2025 tech days in October of Germany, where we will provide a Fendt factory torque and product experience on September 30, followed by field demonstrations on October 1.

We hope you will join us and we look forward to seeing you there.

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 Jamie Cook with Truist.

Jamie Cook^ I guess my first question, the first quarter came in better than you guys had expected.

I think you were guiding to breakeven, and on an adjusted basis, you came in at \$0.41.

So Damon, just any color on where you performed better versus what you would have thought.

Then I guess my second question, just a little more color on tariffs and the actions you're taking to mitigate tariffs.

I guess one, can you talk to your order book?

Is there any risk in order book in the order book associated with tariffs sort of the price increases that you're talking about and actions you're taking?

I don't know if you can put a dollar amount on that because it's impressive if you (inaudible) are still maintaining your guide.

Damon Audia^ Yes. Sure, Jamie.

So you're right, we did do better in our -- in the first quarter than what we had originally expected.

I think there's probably two items or two different categories, but I think at the operational side of the house the teams did a little bit better in pricing and mix was stronger, especially in our European operations.

Then as you heard us talk last year about our cost control actions, we're starting to see those.

We're a little bit ahead of schedule in what we dropped to the bottom line.

So I think price mix and costs were a little bit better.

We did cut production a little bit more in the quarter than what we had originally guided to.

So that was a little bit negative of a headwind.

So when I look at those categories operationally, I'd say that was about \$0.25 of a positive versus our outlook.

Then we did better below the line.

So if you look at the foreign currency gain and losses, we had some lower discounting of receivables.

So those other below-the-line items were about \$0.20, and that's what brought us to the \$0.41 for the quarter.

As we think about your question on tariffs, as we've said, we are looking at what is in effect to date.

We have assumed some modest price increases.

We have already had some in effect for our parts operations -- or parts products, excuse me. Those have already been in effect.

We are contemplating things on equipment.

In that, though, we have also assumed that to the extent we do take pricing actions, there would be an incremental slowdown to the North American business.

We have not factored that into our industry outlook is we're not sure whether that would be unique to AGCO or whether that would affect the industry.

And when we look at those two things together, the price net of the lower North American volume as a net negative on sales.

I would say it's about less than 1% of total company revenues, and it's a negative to earnings per share.

If I look at that. That's about a \$0.30 headwind related to the -- to our business here in our current outlook that we've embedded in our outlook.

Order boards, as you know order boards have been coming down as we came out of the supply chain challenges. Right now as we sit here in North America, we're somewhere in the range of four to five months of orders depending on the product.

So again, the -- any actions will likely have an effect on pricing later on in the year given the current order board that we see.

Other actions we're taking on tariffs. Again we talk about potentially implementing some prices for equipment.

We already have prices in effect for parts.

As I've mentioned on other calls, we are looking to mitigate some of these costs where possible.

Some of the products that we brought in from Europe, we're looking at things like bonded warehouses now to minimize the price effects of what would happen in Canada.

Obviously, we're having active discussions with our suppliers as to how do we help mitigate the costs we have to absorb in actions that they can take to try to dampen the overall impact to AGCO.

So I think like most large industrials, we're pulling every lever out there, we're working with advisers is what they may be hearing and seeing others doing to make sure that we're looking at all of these different options to mitigate the cost given the dynamic situation we're in right now.

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

Kyle Menges^ So I know Damon, you called out just the EME margins, particularly strong in the quarter, at least partly driven by mix.

So I guess the question is really just around the sustainability of EME margins?

And just how do we think about the risks of a potential mix shift from Fendt to maybe the other brands?

And just how to think about the mix impacts on EME margins, how to think about that for the rest of the year and then maybe in the kind of medium term?

Damon Audia^ Yes. I think overall, Kyle, the European market, again reminding for the group, is the most stable of all of our three major markets given the level of subsidies in that market.

It's historically been the most stable and predictable.

So that part of the world, at least thus far, has been relatively solid for us.

If you think about what we've been seeing here, there's somewhat of a sense of a flight to quality as farmers are on the fringes who are less profitable.

Think about them likely buying more of our volume-orientated brands.

So Fendt has continued to do well in gaining significant market share over the last one year. Fendt has done exceptionally well in gaining share whether that's through some of the new product introductions or some of the next-generation products.

The portfolio of new products coming out for Fendt is still pretty rich as we look over the next couple of years.

So again, you've heard us say this before, but Fendt is the best of the best.

It's driving the latest innovation, the best fuel efficiency out there.

So as farmers are really challenged on their profitability, they're looking for ways to minimize their input costs, maximize their output and their yield (inaudible) delivers on that in the products that they're offering.

So I don't see necessarily Fendt eroding in exchange for another product or another brand.

But what you may see is if the economy recovers and some of these more volume orientated brands start to outpace in a recovery mode, it may have a little bit of effect, but I don't see that

changing the overall E&E margins significantly from what you've been seeing us perform over the last couple of quarters.

Kyle Menges^ That's helpful.

Then I think it'd also be helpful just to get some sense of what Trimble top line and margins looked like in the quarter, like where margins positive?

Then just how should we be thinking about as you start lapping that CNH dealer stock up that we saw?

Just what are you seeing now in terms of the dealer inventories and order trends from those dealers?

Damon Audia^ Yes. So I'll touch on maybe the numbers, and I'll let Eric talk about what he's seeing specifically related to some of the dealers and the products here.

But if you remember, we did not have PTx Trimble in the portfolio here in the first quarter.

So our overall PTx revenue, that's incremental.

Sales for that part of the business were just over \$60 million in the quarter.

And if you remember what Trimble would have announced, it was a little bit over \$80 million. That did include AGCO-related sales.

So down a little bit, not too different than the overall industry, so very much in line.

So we're feeling pretty good about what we're seeing relative to the industry dynamics, but Eric can talk about what we're seeing with the CNH channel and some of the other AGCO dealer channels that we're bringing on board right now.

Eric Hansotia^ Yes. The main focus we've got is establishing the channel of the future, and that's ramping up our AGCO dealers to also take on the PTx contract. From where we were at the end of 2024 until today we have about tripled the amount of industry coverage that we've got covered by AGCO dealers that also carry PTx.

We expect that the bulk of that work and to be done by the end of the second quarter, we'll have most of the large-sized dealers signed up.

So that channel is our most urgent to get activated and it's underway in a good way.

Second topic is utilizing Trimble technology on AGCO products.

We started -- when we launched the JV a year ago, we were at about 20% take rate.

We got it to about 70% take rate at the end of 2024, and now we're more like 90% take rate, which is about where we think it will stabilize because there will always be niches that we may still provide other brands.

But -- so that's fundamentally well in place.

We think that the last time buy of the CNH made just prior to the deal closing is getting closer to being exhausted.

And so, that should no longer be a headwind to the overall business.

So feeling very good about first quarter acceleration of channel readiness as well as the cross-selling activity in the full line tech channel.

I talked about the AGCO dealers. Those are the machinery dealers that sell planters, sprayers, combines and so on that also sell PTx.

But then we've got this unique.

We're the only ones in the industry that have a full-line tech channel and all the sellers technology, those are either former Trimble dealers or former precision planting dealers that are going to sell the full portfolio.

We're working on cross-selling -- helping those dealers be capable and proficient at cross-selling the entire line. That will -- that's taking hold this year.

It will be a little bit longer runway on that because it's a little bit more complicated.

But we feel like we're on pace with that as well.

Damon Audia^ Then kind of wrapping up on the profitability. PTx Trimble was profitable for us in the quarter, not to the levels we want it just yet.

But again as we talked in the past, given the lower levels of volume the high incrementals and decrementals there.

We know we need to get volume back in, but we were profitable here for the first quarter.

So a good start to the year with the PTx Trimble team.

Eric Hansotia^ Maybe one more comment because I imagine that there's other questions on other people's mind.

So I'll just say we reorganized the leadership team of the PTx business in quarter four where we had PTx Trimble as the JV and Precision Planting along with the other tech companies that we had bought.

We blended all that together, melted together into one global PTx leadership team.

With that, in quarter one, we've seen a significant acceleration in the synergies, both within PTx, ideas of revenue synergies and cost synergies as well as with PTx to AGCO.

So that's the other element that we were committed to getting done, and we found a nice acceleration in quarter one.

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

Kristen Owen^ I wanted to follow up on some of like Jamie touched on in her question. And just making sure I understand the mechanics on the full year guide.

So you've got the Q1 top line in line, full year maintained, bottom line beat by \$0.40, full year maintained, but you've also lifted some of the outlook for price for FX.

So is it fair to think that your assumptions around tariffs are something on the order of the four points that you added to the top line that, that could be a 4percentage point headwind and similarly, a 40% headwind on the bottom line?

Sorry for the long-winded question there, but I just want to make sure I understand the mechanics.

Then I do have an unrelated follow-up.

Damon Audia^ Yes. I think -- so Kristen, maybe I'll do it by EPS or by earnings per share, just to keep it simple for me.

Our guide was [4 to 4.50]. If I roll through the \$0.40 beat directionally that we had in the first quarter. foreign currency is a positive for us.

As we said, we went from negative 3% to around flat. Think of that as probably directionally around a \$0.40 pickup as well.

We've taken the industry outlooks in North America and Europe down.

Asia is also down.

So when I look at those industry dynamics, South America is up.

That's around a \$0.30 headwind for us. Tariff -- the net tariff impact to us.

So pricing, coupled with that volume comment I made earlier, that's around \$0.30, and then you've got some incremental negative absorption because of the industry changes.

We're still in the 15% to 20% hours cut, but that's because we're taking the industry down and we have the assumption in North America, we have some further absorption embedded in our numbers.

So that, coupled with some other things is about another \$0.10 or so.

Kristen Owen^ That's incredibly helpful.

Then I did want to ask, you mentioned it in the prepared remarks, as you typically do about your capital allocation strategy. Just given the progress with your large shareholder and their decision not to stand for reelection, I'm wondering if you can maybe update us on what potential outcomes could look like there, and how that might influence your capital allocation going forward?

Eric Hansotia^ Yes. I'll take that one.

We feel really good about the progress we've made in discussions with TAFE, and you've seen that that the Board seat that TAFE had is no longer in place, and so we've gone from 10 directors down to nine.

So you can kind of imagine that the overall discussions are pretty robust.

We're not all the way done with them yet, but we're getting close.

We recognize that investors would like us to do share buybacks.

And because of that, we would like to do that as well.

We've been constrained from doing them over the last several years because of that shareholder concentration.

As you can imagine, that's part of our discussions, and we're trying to represent that on behalf of our investors.

I can't see any specifics right now because the discussions aren't done, but I promise you that that's certainly at the forefront of what we're trying to get accomplished. And as soon as we can share it, I promise you if we will.

Operator^ The next question comes from Jerry Revich with Goldman Sachs.

Jerry Revich^ Nice quarter. Eric, I wanted to ask, if you folks looked at the scenario that I'm sure you've evaluated if you were to bring Fendt production into the U.S. for the U.S. market.

What would that look like for AGCO?

What would the impact be on unit costs if you were to move in that direction?

How long would that transition take?

Can you just fill us in on that contingency plan, and how you folks have evaluated it if it were to come down to it?

Eric Hansotia^ Yes. We've looked at that.

We actually even looked at it before the tariffs. We look at it every year of our overall footprint and understand what market demand is looking like?

And where is the best place to produce as exchange rates move and the volumes change and things like that.

And we've been gaining market share nicely with Fendt in North and South America.

So it's a natural thing that we do annually.

I would say that for any of these footprint decisions, one of the things that we need to count on is a sustainable set of assumptions and that we can count on those for the long term.

So right now that environment doesn't exist.

So we're -- we've got a few different scenarios of what we might do.

But as you can imagine, tractor production, especially involves a lot of machining capability, design the transmission and engine and powertrain particularly, but a lot of the castings take a lot of machining, machining or high capital good items.

So all the major players kind of centralize those into one spot for high horsepower production.

Now those -- that's for the components. To do final assembly, it's a little bit more flexible.

So we've got options for different levels of how much vertical integration we would potentially do.

We've got the sites selected and understand what the impact of the supply base.

But right now we're waiting until things stabilize.

We don't anticipate to make any real changes in manufacturing locations in the short term.

Now we're working with our suppliers to move component production around because that's a little bit more flexible, but final production is something that we're holding off until things stabilize further.

Jerry Revich^ Super. Then just to shift gears, and nice to hear progress about the Precision Ag reorganization and what that has meant for cross-selling.

Can you just update us on your views on the legacy Trimble retrofit kit. You've got a competitor that's spoken publicly about making good headway in terms of launching that product at a lower upfront cost with subscription over time?

What's the AGCO counterpoint to that offering?

Are you folks in the market, the numbers that (inaudible) earlier include potential lower ASP, but higher subscription value?

Can you just talk about how you're thinking about the competitive landscape for...

Eric Hansotia^ Yes. In fact, this week, we're launching the new latest and greatest guidance technology.

We call it the NAV960. That's just the new model number.

It's at Agrishow, and it's getting tremendous interest from the market down there.

In fact, the overall Agrishow is very positive.

We see ordering up across all of our brands, lots of interest, especially in Fendt, but across all three of our brands in South America.

Then coming back to the technology, we've got PTx marketing and education embedded in each of our brand booths within the show as well as our PTx unique store.

So PTx is playing a very strong position in the market, and we just rolled out the latest new technology.

We're excited about the new 960.

As it relates to pricing, we have experimented with both full price on the hardware upfront and subscription-based pricing.

I think we're going to end up having a bit of a mix as it goes into the market, where depending on where we are in the world, we'll probably use different tools.

It's really because we want to be the most farmer-focused company in the industry and serve those markets the way the farmers want to consume that technology.

We recognize the value in subscription as it relates to our income statement, but we're trying to balance that with what farmers want to make sure that they're most productive in their operation.

So I think you'll see a little bit of both.

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

Stephen Volkmann^ Damon, I'm wondering if you can sort of mark us to market relative to your various cost cut programs?

What have you achieved so far?

What do you expect to achieve by year-end?

Any changes in that outlook?

Damon Audia^ No changes, Steve.

I think we are on a very good pace.

I think at the end of the first quarter, we've expensed somewhere in the range of around \$160 million.

If you remember, our guide was somewhere in the range of \$150 million to \$200 million in total cost.

So we're getting through the bulk of that has past us here.

Savings-wise, our guide was \$100 million to \$125 million.

I feel very confident that we'll be exiting the year here at that level.

Eric Hansotia^ It's been a time for our whole leadership team, Paul last year and into this year, we just had 2.5 days working on that.

We've got a very detailed management approach to this, a whole working tool that tracks every project by date, by location.

So it's not a hope, it's a very detailed and well-managed program to deliver on that.

Damon Audia^ I would say that we also announced that -- you remember at the December Investor Day we announced another \$75 million of cost opportunities we saw that we thought we could materialize by end of 2026. Given the environment we're in right now probably no surprise to you, we are, as Eric said, working with our teams around the world and where our areas to potentially accelerate those cost-out opportunities, trying to enhance that \$100 million to \$125 million of run rate savings we have with the original restructuring.

So nothing to add incremental right now but I would say as Eric said, it's a top priority of this team around the world looking for ways to pull that in where appropriate.

Stephen Volkmann^ Super. I guess as I think forward, I think Damon, you said you're still looking at 25% as kind of the trough of the cycle.

I guess just based on all this cost stuff, there shouldn't be any real reason that we wouldn't factor in potentially meaningfully higher incremental margins once we start turning back up again.

Or is there some offset you'd like us to keep in mind?

Damon Audia^ No. I mean, again, I think as we look at the structural cost that we're taking out, if you look at our decrementsals this quarter, we were actually slightly positive to our normal call it, around 30% and part of that is the cost savings actions that are dropping to the bottom line.

I think, obviously, as you start to go into an upswing in the market, see there's some variable cost that comes in, things like variable comp, hopefully gets to become a headwind for us.

But I think overall, we would feel that we have structurally changed the profitability of this business through the cost actions, coupled with the large -- with the primary growth engines Eric talked about.

So hopefully, the incrementals will be above our normal.

But let's get to that point in the conversation when the industry is recovering, and we can dig deeper at that point in time.

Operator^ The next question comes from Tami Zakaria with JP Morgan.

Tami Zakaria^ So my first question is on Fendt.

So if there is tariff -- import on tariffs from the starting in July.

What's your plan regarding the Fendt brand?

My understanding is it's a premium price product already, so would you consider raising prices?

Or would you absorb the cost initially to not drive any price escalation in an already weak market?

Eric Hansotia^ Yes. Let me talk about tariff strategies and it applies to Fendt or any other product that we bring in. Just because one product from one country gets a tariff, that doesn't mean you can put all of that load on that one product coming from that one country.

It gets that machine out of whack in the marketplace.

So instead, we're looking at it more strategically and saying what are the total costs the company is incurring across all components and all machines that we export to a new market and then evaluating what can we do about that cost?

How do we -- that's why we're so aggressive at taking cost out of the core of the company. That allows us a little bit more breathing room to be able to manage through that. Number two, how much can our suppliers, either by us resourcing or working with them to take cost out, how much can be absorbed in our supply base?

Then when we're all done, it's probably going to be a bit of a more broad-based pricing strategy versus the one model that originated the cost increase.

That's because you need to keep your overall portfolio essentially in line with the market.

So the -- all of the models within a given brand, but also from one brand to the next, you want to keep them masked with the value proposition that they deliver and the position they have in the market.

So it will be more likely spread across the overall portfolio versus the models that originated the issue.

Operator^ The next question comes from Steven Fisher with UBS.

Steven Fisher^ I just wanted to follow up on the \$0.30 of the tariff impact. Just to clarify, from a flow perspective, what are the tariffs that is really driving that?

Is that Europe to U.S.? Is it China?

Where does that all come from?

Eric Hansotia^ Yes. Steve, the largest headwind for us is going to be the tariffs currently in effect related to the EU. That would be our largest headwind that we're dealing with.

Then secondarily would be the components coming out of China that we source given the higher tariff rate there.

Then it drops off after those two.

We do import, as you're probably aware, we import some smaller or low horsepower tractors out of countries like Japan, Indonesia, India, a little bit from Brazil.

So that tail drops off after EU and China.

Steven Fisher^ Very helpful.

Then it seems like Brazil is obviously on the verge of perhaps really turning more positively here.

So what can you do?

And what are you doing to make sure you're keeping competitive pace there and really trying to - is the objective to kind of win in Brazil?

Can you just give a little bit of color there?

Eric Hansotia^ No. We are full speed ahead in Brazil. We've said each time Brazil comes up. We're bullish on Brazil. We've been bullish on Brazil for years.

We think it's one of the most critical growth markets in global agriculture.

It's got the capacity to grow two crops a season, sometimes even more than that and more -- put more acreage into the production, is along with more use of high-technology precision ag tools.

So our brand leads, both of them, our Senior Vice Presidents of both brands are down there this week.

I wish I could have been, but we had this stuff going on today. Head of PTx is down there.

So we're engaging with the market vigorously. All of them have given me feedback that the customer group is much more excited this year and sales sentiment is much more positive this year than last year.

We're working with our factories and supply base to make sure that we can be ready for an increase in demand that is likely coming. Brazil is either going up or down.

It doesn't stay flat for very long.

And so we recognize that, and we think we're on the path to be going up for some time because all the indicators are pointing towards Brazil being a winner out of the volatility that's in the marketplace.

So we're well positioned for that.

Damon talked about, we're about one month high in dealer inventory, but probably through Agrishow that's going to get evaporated here soon.

Then it's really about building to the market.

Operator^ The last question will come from Tim Thein with Raymond James.

Timothy Thein^ Just a quick one, I guess Eric. Just continuing along the line here, getting flashbacks dragged to my old baseball base betting here at the bottom of the lineup.

But the -- just on the back of that comment on Brazil, I guess just curious, in light of the increase in interest rates that's putting a bit more pressure on the federal government in terms of the kind of the wiggle room they have in terms of announcing the subsidized interest rate program.

I'm just curious if there's been any news or anything that's come out there in terms of what next year's program may look like?

So maybe that's part one.

Then part two, just -- and I probably missed this, but the change in the pricing expectations, and it wasn't a brand change, but the change from last quarter, was there a region?

Or is that a mix dynamic going on with Brazil improving?

Is that biasing that the overall pricing higher from last quarter?

Maybe just a comment on that.

Eric Hansotia^ Yes. Real briefly, Brazil, we haven't heard any indications yet.

I don't think there's any indication that's been provided.

But we do have confidence that, that government is highly supportive of farming and farmers.

So we think that the priority on farmers will remain, but don't have any specifics yet to be able to digest.

And I'll ask Damon to help out with the mix on pricing.

Damon Audia^ Tim, I think overall, our outlook from which was 0% to 1% to around 1% heavily weighted on what we've assumed related to the North American market there.

So there's been a little bit of improvement here in Europe.

But generally speaking, the change in guidance is solely focused -- mainly focused on North America.

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.

I just wanted to thank the group for joining us today and the great questions on the call. When you take a step back, AGCO has gone through a substantial transformation over these past several years, particularly in 2024, where we supercharge our precision ag portfolio with the PTx brand.

We're so glad that we made that move. AGCO performed well in the first quarter, better positioning ourselves amidst global trade uncertainty and continued weak industry demand.

We made substantial progress in our cost reduction efforts and reducing inventory. All these efforts will be priorities for the remainder of the year.

We're excited about the fact that farmer sentiment indicators are trending positive in all the major regions six months in a row now (inaudible), which is our biggest market, and we still see the trough being in 2025.

Our key to our long-term success is the continued execution of our Farmer First strategy.

Our focus is on growing our margin-rich businesses like Fendt, parts and services and our Precision Ag business.

I'll finish where I started.

Our financial outlook reflects my confidence in the team and our strategy. Even in the weak industry conditions, we continue to execute on investing in the future, delivering market share gains and staying nimble on our costs. To all of our shareholders, we appreciate the support and look forward to building value and executing 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.