

AGCO Corp (Q3 2025 Earnings)

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Corporate Speakers:

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

Participants:

- Kristen Owen; Oppenheimer & Company; Analyst
- Jamie Cook; Truist Securities; Analyst
- Kyle Menges; Citigroup; Analyst
- Tami Zakaria; JPMorgan; Analyst
- Stephen Volkmann; Jefferies; Analyst
- Mircea Dobre; RW Baird; Analyst
- Chad Dillard; Bernstein; Analyst
- Joel Jackson; BMO Capital Markets; Analyst
- Angel Castillo; Morgan Stanley; Analyst

PRESENTATION

Operator^ Good day. And welcome to the AGCO Third 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, [Jerry]. And good morning. Welcome to those of you joining us for AGCO's third quarter 2025 earnings call. We will refer to a slide presentation this morning that's posted on our website at www.agcocorp.com. The non-GAAP measures used in the slide presentation are reconciled to GAAP metrics 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 our financial impacts, 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, farm income, production levels, price levels, margins, earnings, operating income, cash flow, engineering expense, tax rates and other financial metrics. All of these forward-looking statements are subject to risks that could cause actual results to differ materially from those suggested by the statements. These risks are further described in the safe harbor included on Slide 2 in the accompanying presentation. 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 SEC 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 corporate website later today.

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

Eric Hansotia^ Thanks, Greg. And good morning to everyone joining the call today. We delivered a strong third quarter performance, underscoring the effectiveness of our strategic execution and the resilience of our global team. While macro conditions continue to be volatile, we benefited from a more favorable regional mix and stayed laser-focused on what we can control.

Our disciplined approach to production and cost management continues to position us well in this environment. Thank you to the entire AGCO team for their continued focus in these two areas where we remained agile in the face of a complex and evolving landscape, and our people have been instrumental in helping us navigate this uncertainty, maintaining our momentum and continuing to put Farmers First.

Net sales were \$2.5 billion, down approximately 5% year-over-year, or up nearly 6% when excluding Grain & Protein business divested last year.

Strong growth in EME led the quarter, which continues to be our largest, most stable and most profitable region. Near record global crop production in 2025 is leading to an elevated grain inventories and putting pressure on commodity prices.

While farm income is being supported by increased government systems in the U.S., crop margins are still tight, and farmers around the globe remain cautious on capital spend.

During this industry downturn, we are staying focused on executing our strategy, supporting our dealers and customers and investing in technologies that will drive long-term growth.

We also continue to look for every opportunity to limit the impact of tariffs on our farmers. We are closely monitoring evolving tariff policies and government support programs around the world while continuing to engage with suppliers and adjust our supply chain.

We continue to assess and implement price increases where appropriate and feasible.

For the quarter, consolidated operating margins were 6.1% on a reported basis and 7.5% on an adjusted basis. Our results reflect strong execution by our teams. We maintained solid margins through disciplined operational performance, a favorable regional mix and

continued progress on our restructuring initiatives. This consistency underscores the effectiveness of our strategy and our commitment to delivering long-term value.

Notably, we achieved these margins despite another quarter of significant production cuts in North America as part of our ongoing efforts to destock the dealer channel. When comparing third quarter of 2025 to the same period last year, production was down nearly 50% in North America. Production levels are actually down nearly 70% from 2023.

In addition to making further progress on reducing dealer inventories, we've also decreased company inventories. This continued discipline is reflected in our working capital improvements and free cash flow generation during the nine months of the year, which was approximately \$453 million up compared to the same period in 2024.

Slide 4 provides an overview of industry unit retail sales by region for the first nine months of 2025.

The global farm equipment market continues to face significant headwinds. Brazil remains slightly up compared to the third quarter of 2024, driven primarily by demand for smaller and midsized tractors coupled with favorable trade dynamics. Despite record soybean harvests and potential trade benefits, demand for larger equipment has yet to show meaningful improvement. High financing costs and political uncertainty are expected to continue constraining demand in 2025, but the early signs of recovery point to a modest increase in 2026.

In North America, tractor sales declined 10% in the first nine months of 2025 compared to the same period in 2024, with the steepest drops occurring in the high horsepower categories. Driving this behavior is the significantly lower grain export demand, global trade uncertainty and continued high input costs. We expect these pressures to persist, particularly with the demand for larger equipment. Recent announcements of government support are expected to support net farm income, which may help unlock future equipment investments. There are also potential upsides if further progress can be made on top of the trade agreement that was announced earlier this week between the U.S. and China.

For Western Europe, tractor sales were down 8% during the first nine months of 2025, compared to the same period one year ago. The industry experienced double-digit percentage decreases across most markets. Demand and mix are expected to remain soft through the remainder of the year, as lower income levels weigh on arable farmers and correspondingly large tractors.

As AGCO's largest and most strategically important region, Europe continues to deliver stable demand that is less cyclical than other markets with strong and consistent operating margins. This performance provides valuable balance to our global portfolio, helping us to offset fluctuations in other markets including those influenced by evolving U.S. trade dynamics. We remain confident in the region's ability to support our long-term growth, especially as Precision Ag grows there.

Combine sales continued to decline across all three regions, with North America experiencing the largest year-over-year drop at 29%. Amid industry-wide pressures, AGCO is performing more resiliently than in previous downturns and remains well positioned for the long-term growth.

Looking ahead to 2026, current commodity prices and fundamental uncertainties continue to impact the global ag industry outlook. Positive market factors including livestock and dairy prices, the replacement cycle and government payments are being offset by geopolitical tension, tariff impacts and difficult farm economics, which include elevated borrowing costs and rising input costs.

Given the combination of all of these factors, there is increasing likelihood of markets being relatively flat in 2026, with North American large ag down and Europe and South America modestly up. This view confirms our assessment that the global industry is at the trough.

Slide 5 outlines AGCO's factory production hours. To ensure year-over-year comparability, we've excluded Grain & Protein production hours from the 2024 baseline. Third quarter production hours were up approximately 6% year-over-year, driven by a favorable comparison in Europe, where quarter three 2024 and was impacted by the prolonged factory shutdowns, as well as increased output in South America.

In contrast, North America production was down over 50% again this quarter, reflecting our continued focus on reducing dealer inventories in response to soft market demand. And as I mentioned, production levels are actually down nearly 70% from 2023.

Looking ahead, we now expect full year 2025 production to be down approximately 15% versus 2024, a slight revision from our prior estimate of down 15% to 20% primarily due to stronger quarter three output in EME. Rightsizing inventory in North America remains a top priority, while Europe and South America will continue to see production effectively aligned with retail demand.

Looking at regional inventory breakdown. In Europe, dealer inventory is now just over three months, slightly below our target. Fendt is below this average, while Massey Ferguson and Valtra are just above. Europe's near-target inventory levels are encouraging, particularly given our strong exposure to the region.

In South America, dealer inventory ticked up to around four months, slightly above our 3-month target and quarter two levels given the decline in demand for low and medium horsepower tractors. The increase in inventory reflects mainly a more cautious industry outlook, given the demand changes in quarter three, which led us to adjust our forward sales expectations.

In North America, we continue to make meaningful progress, reducing dealer inventory from nine to eight months. While still above our target, the reduction reflects the success of our disciplined production cuts, with units being reduced almost 13% in the quarter.

Our three high-margin growth drivers, globalizing and expanding our Fendt product line, growing precision ag, and increasing our parts business, remains central to our strategy. To unlock the full potential of these growth levers and transform AGCO into a higher-performing company throughout the cycles, there are five major strategic shifts we've just made in the past two years that position us for significant earnings growth.

Let's start with a significant update regarding our resolution with TAFE. We recently announced the sale of our ownership interest in TAFE, generating approximately \$230 million in after-tax proceeds. For the first time under my leadership, we now plan to move forward with a \$1 billion share repurchase program, reflecting our confidence in the business and our commitment to shareholder returns. We plan to begin purchasing \$300 million of shares in the fourth quarter.

Turning to other key elements that are meaningfully reshaping our company. The creation of our PTx business is the most critical to helping us achieve our vision to be the trusted partner for industry-leading smart farming solutions. By combining Precision Planting, the ag assets of Trimble and six additional tech acquisitions over the last five years, plus doubling our engineering budget, we've built a \$900 million platform with a path to \$2 billion in Precision Ag revenues as synergies and scale take hold.

As we strengthened our high-margin, high-growth portfolio, we exited the lower growth, lower margin business of Grain and Protein, which lacked alignment with our core machine and technology products as well as our distribution strategy.

Project Reimagine is a company-wide restructuring effort focused on automating, standardizing, simplifying, centralizing, and in some cases, outsourcing work. With over 700 active projects, we are driving efficiency, lowering costs and most importantly, improving the outcomes for our dealers, farmers and employees, enabled by AI. This initiative is expected to reduce our cost-base by \$175 million to \$200 million.

Finally, FarmerCore is unique in our industry and is transforming our go-to-market strategy. We're taking service and support right to the farmers, online and on the farm, by investing in digital tools and enabling dealers to shift from brick-and-mortar to mobile service models. This is about servicing the farmer, not just the product. We're making meaningful progress in North and South America with expansion to other markets planned in the future.

Together, these five strategic shifts are shaping the AGCO we've envisioned. More focused, more agile and better positioned to deliver sustainable, high-margin growth. The results include margins at this trough that are comparable to the company's margins at the previous cycle's peak. AGCO is delivering higher margins through the business cycle, driven by these structural changes to the company's portfolio and value proposition.

Going deeper into Precision Ag, Slide 7 showcases two major innovation milestones that reflect AGCO as a leader in smart farming solutions.

We've launched Phase one of FarmENGAGE, our new mixed fleet digital platform designed to deploy work plans, track fieldwork and collect test data from all machines on the farm regardless of brand. This retrofit-first solution enables AGCO equipment to seamlessly integrate with existing Trimble technology while also supporting interoperability with non-AGCO fleets.

Looking ahead, Phase two will consolidate features into a unified platform experience and Phase three will complete the full farm operations cycle, delivering an end-to-end solution for planning, execution and optimization. Together, these phases position FarmENGAGE as an absolute cornerstone of our smart farming strategy.

As you know our goal is to be autonomous across the crop cycle by 2030. We are accelerating this journey and at a recent Tech Day in Germany, we unveiled the latest Outrun autonomous solution for tillage and fertilization. Tillage is now in beta testing and fertilization is in alpha. These build on the success of our Outrun autonomous green card solution, which is already in production. These innovations offer autonomous capabilities for Fendt and competitive machines in three of the five major stages of the crop cycle, making us one of the industry leaders in this transformational technology.

This progress reflects our commitment to delivering practical scalable technologies for the mixed fleet that reduce labor dependency, improve efficiency and help farmers operate more profitably.

On that exciting note, I'll hand it over to Damon for a deeper dive into the financials.

Damon Audia^ Thank you, Eric. And good morning. Slide 8 summarizes our regional net sales performance for the third quarter and year-to-date.

Net sales for the quarter increased approximately 1% year-over-year, excluding the positive impact of currency translation. For comparability, we've also excluded the \$251 million of sales associated with the divested Grain & Protein business in Q3 of 2024.

Breaking net sales down by region. Europe/Middle East posted a 20% increase compared to the same period in 2024, excluding the impact of favorable currency effects. This reflects a recovery in the production levels in corresponding sales following extended plant downtime last year. Growth was strongest in the high horsepower and mid-range tractors.

South America declined close to 10%, excluding favorable currency impact. Weaker industry demand drove most of the decrease with lower sales across most product categories.

North America was down 32%, excluding unfavorable currency effects. The decline was driven by continued market softness and our focused underproduction to reduce dealer inventories. The largest decreases occurred in high-horsepower tractors, sprayers and combines.

Asia/Pacific/Africa declined 5%, excluding unfavorable currency translation impacts. Lower demand across the Asian markets were partially offset by stronger performance in Australia and Africa.

Finally, consolidated replacement parts were \$498 million in the third quarter, up 2% year-over-year on a reported basis and down approximately 2% when excluding the favorable currency translation.

Turning to Slide 9. Third quarter adjusted operating margin was 7.5%, 200 basis points higher than the prior year. The industry backdrop remains challenging with continued pressure from factory under-absorption and elevated discounting.

The margin improvement was primarily driven by strong performance in our Europe/Middle East segment, where higher sales and production volumes supported improved operating leverage.

By region, Europe/Middle East income from operations increased around \$163 million with operating margins approaching 16%. The improvement reflects the significantly higher volumes and sales compared to Q3 of 2024, which was impacted by the extended plant shutdowns.

North American operating income declined approximately \$56 million year-over-year with margins remaining negative again this quarter. Lower sales and significantly reduced production hours were the key drivers, coupled with a significantly weaker industry.

South America operating income declined \$23 million with margins down to around 6%, primarily due to lower volumes.

Asia/Pacific/Africa posted a slight increase in operating income of \$1 million, driven by lower manufacturing costs, partially offset by lower sales volume.

Slide 10 shows our year-to-date free cash flow performance. As a reminder, free cash flow is defined as cash provided by or used in operating activities, less capital expenditures. Free cash flow conversion is calculated as free cash flow divided by adjusted net income.

Through September, we generated \$65 million of free cash flow, an improvement of around \$450 million versus last year's net outflow of \$387 million for the same period. This was driven by stronger working capital performance and roughly \$120 million in lower capital expenditures year-over-year.

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

Our capital allocation priorities remain unchanged. Reinvest in the business, potential bolt-on acquisitions, maintain investment-grade credit ratings and return capital to shareholders.

As Eric mentioned, following the TAFE resolution and the Board approval of our new \$1 billion share repurchase program, we expect to begin repurchasing \$300 million of shares in the fourth quarter.

We also recently declared our regular quarterly dividend of \$0.29 per share.

We remain focused on deploying capital effectively to drive long-term shareholder value, and we're encouraged by the increased flexibility to return capital through the preferred investor method of share repurchases.

Slide 11 highlights our current 2025 market outlook across our three major regions. Our outlooks remain relatively unchanged since the second quarter call other than a modest adjustment to our North American large ag forecast.

In North America, we continue to expect significantly lower industry demand in 2025. While net farm income has improved, supported by government programs and record high cattle prices, sentiment remains challenged by weak corn and soybean prices. Investment confidence is declining, and interest rate cuts haven't yet provided meaningful relief. We're maintaining our outlook for the small tractor segment to be down approximately 5% and now expect large ag to be down around 30%, versus our prior range of down 25% to 30%.

In Western Europe, we continue to expect the industry demand to decline 5% to 10%. The market remains soft, but relatively stable. Wheat prices are below historical averages, and geopolitical uncertainty continues to weigh on sentiments.

In South America, record soybean exports, partly driven by U.S. tariff barriers, have supported trade flows. However, margins are under pressure from higher input costs, and elevated interest rates in Brazil are dampening demand, especially for large ag. Under these conditions, we still expect Brazil to be flat to up 5% for the year.

Slide 12 outlines the key assumptions supporting our full year 2025 outlook.

We continue to expect global industry demand to be around 85% of mid-cycle levels.

Our sales outlook remain unchanged despite a slightly softer pricing outlook now in the 0% to 1% range, which is down from approximately 1% in Q2 given the increase in competitive pricing in certain regions.

We continue to anticipate a favorable currency impact of roughly 2%.

Our guidance reflects current tariffs across our global footprint, along with mitigation efforts through cost actions and pricing. That said, the potential for additional U.S. tariffs or retaliatory measures fosters continued uncertainty. We're monitoring developments closely and will adjust our outlook if needed.

Engineering expense is expected to remain effectively flat year-over-year.

We still expect our adjusted operating margin to be approximately 7.5%, reflecting structural improvements and cost initiatives, positioning us roughly 350 basis points above our last trough in 2016.

Lastly, we revised our effective tax rate to 33% to 35%, modestly better than our prior estimate of approximately 35%.

Turning to Slide 13 for our current 2025 outlook.

We continue to expect full year net sales of approximately \$9.8 billion, consistent with our prior outlook. This reflects the modest changes in demand trends across key markets.

We refined our earnings per share forecast to approximately \$5, reflecting strong execution across our global operations. This assumes no material changes to existing trade measures.

Capital expenditures are now expected to be around \$300 million. While this represents a decrease from the prior estimate of \$350 million, we remain focused on supporting strategic initiatives and maintaining flexibility in response to shifting demand trends.

We continue to target free cash flow conversion of 75% to 100% of adjusted net income, supported by disciplined working capital management and improved inventory efficiency.

As Eric noted, we're pleased with our performance through the third quarter in what remains a challenging and evolving year. Our teams have executed well, grown share and continued to reduce dealer inventories while supporting farmers' needs.

With this updated outlook, we believe our results further demonstrate the structural improvements in AGCO's profitability. Even in a down cycle, we're delivering stronger margins and more consistent earnings, a reflection of our transformed business model.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question today is from Kristen Owen with Oppenheimer & Company.

Kristen Owen^ I'm wondering if we can start here with the strong Europe results. And maybe just ask a simple question is how Europe performed relative to your expectations? I'm just trying to parse through some of the onetime items versus the underlying trends there? And what's supporting the outlook for a little bit more constructive growth in 2026. And I'll start there.

Damon Audia^ Yes. Sure, Kristen. So I think Europe, I would say, performed modestly better than what we had expected, more on the top line. So volumes were a little bit stronger than what we had originally anticipated. The production, what you saw with the margins heavily influenced by the production schedule, I would say, was relatively in line with what we had expected. So overall, we feel good.

I think the key point for us is we look at Europe right now, the dealer inventory levels are sitting below the optimal level for us. So we feel very good as we go into the fourth quarter into '26 here that we're sitting in a relatively strong position from producing in line with retail or hopefully, if the markets were to pick up, and again, we haven't given a full outlook for '26 yet. But the dealer inventory levels are positioned well there for '26.

Kristen Owen^ And then my follow-up, understanding it's very early days to digest, but any initial thoughts on the China trade agreement that was announced yesterday and how that might complement some of the government support that's been floated out there. Just early thoughts on what that could do for your North American outlook next year.

Eric Hansotia^ Yes. We see this as clearly net positive. There's a combination of the soybean purchases that are more clear now for this year and the next few years. So farmers can -- that's really the core of what farmers look to is market stability and predictability. But then there's also the government support that's been strengthened. And so it's a dual positive outlook.

Having said that, we think this is going to be a little bit of a show-me situation, where the farmers are going to need to have this -- have the trades actually happen, the deal actually finalized, the beans actually being purchased, which will then drive real pricing in the market. So our phones weren't ringing off the hook yesterday with all kinds of purchasing orders coming in. But it's net positive, that will just take some time to play out in the market. It's probably more of a 2026 effect.

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

Jamie Cook^ I guess just my first question, just on the North America dealer inventory. It's nice that it came down to eight months, I guess, versus eight to nine or nine months last quarter. I mean this sounds like this is obviously going to go into -- the excess inventory is going to go into 2026. So -- just any color there at what point in 2026 do you think we could get rightsized? And if we continue this way, and given what you're saying

about North America, is there greater risk in 2026, North America would be at a loss again for 2026. I guess that's my first question. And then I'll ask the next one after you answer this.

Damon Audia^ Yes, Jamie. So I think overall, North America, the team did a really good job in reducing the units on hand as I think Eric said around 13% down sequentially. Given the change in our industry outlook for this year with large ag being down now around 30, and as Eric alluded in his opening comments here, we do see North America down large ag down in North America next year as well. That is putting pressure on us to get to that 6-month target.

I don't -- we won't get there by the end of the year. I think we'll make improvement from the eight months down, but we won't get to the six months now. Again, that's based on our current outlook. I think as Eric just said on the prior question here, a lot of new information has come out over the last couple of days with the China trade agreement, with more conversations about subsidies for the farmers, and just to put it in perspective, again, our industry -- our inventory levels are based on the 12-month forward look. So again, if hypothetically, if large ag in North America was flat next year instead of what we're assuming is down, that would have changed my current eight months, we would have reduced it by around half a month. And so it's fairly sensitive to what looks -- what '26 will look like.

So again, if we see that market turn here based on farmer sentiment, based on increased purchasing in '26, we're going to be in line with our target fairly quickly. So a little bit hard to answer right now because I think there's a little bit of flux in the system based on some of the most recent news.

Jamie Cook^ Okay. And then I guess just my second question, tariffs and the lower price. I think last quarter, the guidance assumes \$0.45 in net tariff impact to EPS. Any update sort of with Section 232, how that impacts you? And just curious how we're managing the higher cost, but then obviously you lowered your pricing assumptions. So where are you seeing the discounting? And how do you think about pricing into 2026, given what some of your peers have communicated?

Damon Audia^ Yes. No, we're definitely -- I think the incremental Section 232 items had a relatively modest impact to our overall tariff cost. Again, as we've sort of quoted a net tariff number for 2025, I would say we are marginally worse relative to the \$0.45 more due to the incremental loss volume that we're estimating here versus the industry. And so I think that's sort of a little bit of a challenge for us here.

As we think about the pricing comment for this year, we have seen some increased competitive pricing tension, more in South America and Europe, and that's what's forced us to change our outlook from what was up around 1% to somewhere in the range of 0% to 1%.

We will still be net neutral to positive on price versus material costs, and that does include tariffs on a global basis. So we're still going to be able to cover it, but maybe not as much as we had hoped given the current environment.

As we look into 2026, we're going to see how the industry dynamics play out. As we've said from the beginning, our goal is to limit the cost of the tariffs to us and to the farmers. Where we can't do that, we know that those costs will be centralized, likely here in North America, and we're going to look to try to spread pricing as broadly as possible. And as I, again, early look into '26, again, I think we'll -- as a total company, we should be able to cover the material cost and the pricing, but we want to get through the year-end before we give more official outlooks for '26.

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

Kyle Menges^ Maybe just jumping off from the last question, it would be helpful to just hear you guys elaborate a bit more on the pricing competition you're seeing, particularly, it sounds like in Brazil and in Europe, just maybe what's going on there.

Damon Audia^ Yes. I think, Kyle, what we've seen is the South American market, especially Brazil, as we said the last quarter, has started to recover. It was the first one of our three major markets into the downturn. It started to recover mainly in the medium and low horsepower segments of the market and influenced a lot by the specialty crop farmers, coffee, citrus, and what we've seen is a little bit of a slowdown in those markets here. And so the market is still growing. I would say we were 0% to 5% last quarter. We were probably closer to the high end of that. And as we look at some of the competitive nature down there with some discounting, especially in that segment, it's reduced our outlook now closer to the lower end of that segment.

Again, I think the markets are still doing well. But just given the push to try to drive volume there, we're seeing that segment of the market be a little bit more competitive in nature.

Kyle Menges^ Got it. And then -- just on your earlier comments on global retail sales looking like they could be flattish year-over-year next year, assuming that's more so just talking about unit sales. I'm curious if that includes Precision at all. And it would be helpful just to hear you discuss a little bit the trends you're seeing in demand for your precision solutions into 2026. And how you feel like you're positioned in that retrofit market going into next year?

Damon Audia^ Yes. So maybe I'll touch on the industry comments and then I'll let Eric elaborate on the PTx business. So -- our outlook for next year is really based on retail unit sales. It's not really including parts or our PTx business. I think of that more as whole goods sales.

Eric Hansotia^ Yes. And then PTx, we're hitting all our forecasts this year. It's going as we would plan it to be at this stage of the cycle. We're at the trough. So the parts are

lower than where we ultimately want them to be. But we're signing up dealers. We've got 90 -- over 90% of our AGCO machines now going out of the factories with Trimble technology. Essentially, if you look at the two channels that we inherited, the Precision Planting and the PTx Trimble channels, we've got over 90% of the market covered and everywhere except for Brazil, and that's in the low 80s, with that dealer network, and we're working and melting those together.

The effort to end up with combined dealers that have the full portfolio is well underway. We've got 50 of those done, target is to have 78 of them by the end of the year. That will cover about 70% of the U.S. market, which is the fastest-growing precision ag business. So just trying to give you a few data points on both channel as well as technology on our product and then new technology. We had our field Tech Days, and PTx launched 11 new innovations this year, well ahead of what we had anticipated when we were putting the business together. So the innovation engine is probably running ahead of schedule. Financials are on track. Channel development is on track.

We've got a new leader in charge of PTx. He's hitting the ground running really well. Has visited many of our global operations in terms of sites and dealers. And so I'm very pleased with how that's going.

Just as a reminder, retrofit doesn't go down as much as the rest of the business. It only declines about a third as much as the overall decline of the whole goods. And so we're seeing -- although it's down, it's not down nearly as much and as it recovers, we expect that, that will recover as well.

Operator^ The next question is from Tami Zakaria with JPMorgan.

Tami Zakaria^ I wanted to get a little more clarification on the pricing outlook being changed. Can you help us with which regions or region is driving that reduction in outlook. And I just wanted to make sure, is fourth quarter pricing still positive? Or are we talking about negative pricing?

Damon Audia^ Yes. So Tami, fourth quarter, it will still be positive. If you look at our year-to-date, I think we're up around 50 basis points, give or take. And so pricing will be up around 1% in the fourth quarter total company wise. Again, if I think about the change in the pricing, again, based on the prior -- one of the prior questions, the change really was driven more in South America and Europe is sort of where we saw the reductions relative to our Q2 outlook for you guys.

Tami Zakaria^ Understood. And my next question is I think I heard you say North America large ag you now expect to be down next year. Can you help us frame what that down means as of right now? Are we talking about flat to down or down to some degree, but less than this year's 30s. Any way to frame that?

Eric Hansotia^ Yes. Prior to the news of the last two days, we would have said down like, say, single digits, nowhere near as much as this year. But then -- since then, we've

had a couple of pretty significant positive indicators in terms of farm support for farmers from the government and pricing stability of China buying soybeans. So where that will actually end up is unknown, but it won't be anywhere near what we saw this year.

We believe we're at the bottom of a global industry. We believe pricing is probably at about its worst. We think pricing power will be stronger next year. And so I think that '25 is probably, in many cases, the worst of the cycle.

Operator^ Next question is from Stephen Volkmann with Jefferies.

Stephen Volkmann^ Damon, can you just give us a little bit of a walk into the fourth quarter? There's a pretty big margin expansion kind of implied in your guidance. And I'm just curious what are the buckets that kind of deliver that.

Damon Audia^ Yes. I think, Steve, for us. The margins in the fourth quarter should finish up at around 9% or a little bit over 9% to deliver the 7.5% full year. And as we look at some of the improvements, I think Europe, again, fourth quarter is generally a fairly strong quarter for Europe. And so with -- from a volume standpoint -- so we should see the margins tick up there.

Asia Pacific is one of the early -- was in the down market early, and we see that improving. So I think we see a little bit of the margin coming out of there and then South America would be the other one. North America continues to be the challenge. If I think about the margins in North America relative to the third quarter, given the increased level of underproduction, again, we said on the scripted remarks that we were down around 50%, and Q4 will be down, we'll be cutting production over 50% as we continue to try to focus on that dealer inventory. So I think sequentially, those margins will be even lower here in the north -- in the fourth quarter for North America.

Stephen Volkmann^ Okay. Helpful. And then maybe just to focus on the restructuring program, so the \$175 million to \$200 million. Is there a benefit of that in the fourth quarter? And then what would the benefit of that be in '26?

Damon Audia^ Yes. We -- again, year-over-year, we're picking up steam as we move through the restructuring actions so there will be some benefit in the fourth quarter relative to last year. That's embedded in the outlook already.

As I look at next year, you're going to get the carryover from the original \$100 million to \$125 million and you'll get some of the early parts of the incremental \$75 million. So next year, as we look at the restructuring benefits, today, I'd say it's probably in the range of \$40 million to \$60 million of incremental improvement relative to 2025.

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

Mircea Dobre^ I want to go back to the tariff discussion, if we can. And what I'm confused about, frankly, is this interplay between Section 232 and just the normal

reciprocal tariffs. And I guess the way I would ask the question when we're sort of thinking about your guidance for 2025, there was a sort of cadence in the way these tariffs kind of came into play, not much impact in the first half, maybe more impact in the second. You also have FIFO accounting. So I'm wondering, is it fair to think that the impact from these tariffs is actually greater in 2026 than what's embedded in the 2025 guidance? And if so, is there a way to maybe quantify it for us?

Damon Audia^ Yes. Sure, Mig. So yes, in answer to your question, if we look at the -- there's a couple of variables to your point. We still have some costs that we have, costs that have flown through our P&L related to the tariff payments we're making. Some of it is still tied up in inventory. And then we will have the full year run rate of those tariffs, assuming there are no changes.

So again, when we think about that, we've also announced that we put price actions in effect in many of our businesses, PTx, parts, whole goods for model year '26. And so we have only seen a portion of that, and that's why we're sort of giving you that net effect this year.

But if I just try to quantify in absolute terms what the tariff costs are, again, not mitigating with price or other actions. For next year, again, assuming no changes to what's in effect today, I would tell you that the total tariff costs are less than 1% of my total company sales. So this year, we're guiding to \$9.8 billion. I'd say the total tariff costs on an annualized basis would be less than 1% of that.

Now that would be concentrated here in North America, so the percent would be more. But as we've talked about in the past, our philosophy is to try to price in the region where we can. But to the extent we're not able to pass all of that, given competitive dynamics in that region, we look for opportunities to be strategic and increased prices in other parts of the world to offset that total cost here for the total company.

Mircea Dobre^ Okay. That's really helpful. And then maybe a quick follow-up on South America. And I don't know if it is the right way to think about it. But when I'm sort of looking at margin here, your revenue has gradually recovered sequentially through the year. We've seen a sequential step down in margin from the second to the third quarter despite revenue being higher. And I'm kind of wondering if this is a function of pricing, as you talked about earlier or if there's something else going on that we need to be aware of as we think about the fourth quarter?

Damon Audia^ Yes. So I think, Mig, there's been a couple of things. The mix, if you think about year-over-year and you're thinking more the mix is, as we talked about the high horsepower segment, despite all of the geopolitical stuff that we're hearing about Brazil being a beneficiary, we're not seeing the large ag part of that market pick up yet. And so what we have been seeing is that again, that medium, low horsepower specialty crops, so what you're seeing year-over-year there is really more of a mix challenge. In the quarter, we had a little bit of a warranty spike year-over-year, nothing significant, but just on a quarter year-over-year basis, warranty was a little bit higher.

When I think about the fourth quarter, again, you're going to see that mix headwind come in, in South America as again, we're not seeing the large horsepower pick up.

And if you look at the fourth quarter for South America specifically, last year, we called out a special tax benefit for R&D. It was about 1% to 1.5% of a margin lift. That's not repeating this year. And so those are the two drivers, as I think about the fourth quarter is really the continued mix decline year-over-year and then that one tax benefit that I had in the fourth quarter of 2024.

Operator^ Next question is from Chad Dillard with Bernstein.

Chad Dillard^ A question for you guys on North America. So can you walk through the path to margin recovery? Is there further restructuring that you can do? And then also, I guess, like how much of that headwind is just coming from tariffs?

Damon Audia^ Yes. So Chad, the part of the overall restructuring program that we're talking about, some of -- a portion of that is in North America. So we will see some marginal benefits of that as we move into next year.

When I look at the margins right now or the negative margins, it's heavily influenced by the level of underproduction. Again, I think as Eric mentioned, when you look at where we were producing in 2023, the number of hours versus what we're producing right now in the back half of '25, we're down around 70-plus percent in hours in North America. So when you just think about the cost of those factories running at that lower level of utilization that is a significant drag on the margins.

On top of that, as I said, the tariff costs are centralized here. The team is doing a nice job in trying to offset that. I'd say, on a dollar basis, we're not offsetting it on a margin basis. So obviously that's going to be margin dilutive. So the key for us is to get the volume, right? We look at this industry. And I think last year, when you exclude Grain & Protein, we were \$2.3 billion or so, give or take. We need to get that volume back up. And whether that's the industry recovering, whether that's the continued focus on gaining share, all of those things are going to be critical. I'd say parts is doing quite well but in North America, parts is a little bit weaker year-over-year. So again, that's a high margin part of the business. So we need, the volume has to start flowing back in North America, and it's not necessarily a reflection of what we're doing. It's more a reflection of the industry. Because when we look at Fendt, we're actually gaining share here in North America you're just gaining share on a much smaller pie and you're not seeing that drop to the bottom line just given the overall industry decline.

Chad Dillard^ Got it. That's super helpful. And then just secondly, you were talking about your pricing strategy to mitigate tariffs and talking about spreading it, I guess, more globally. I'd love to get a little bit more color on that. I guess what I'm trying to understand is how successful are you seeing pricing stick if you're looking to expand more globally than narrowly focusing on pricing in North America?

Eric Hansotia^ Maybe I'll take that one. Our strongest -- our biggest market is Europe, and we continue to grow share there even though we put pricing into that market. South America is probably the opposite. It's -- like Damon said, it's the most price competitive right now. And so it's been the one that's the most difficult for us to have pricing power at the moment. But big picture, South America is going to come back as the industry comes back.

We've had the most success in Europe. Put the price in and gain share at the same time. So our disconnect between where we incur the tariffs and where we offset it has been working.

Remember, there's a 3-pronged strategy there. Number one is work with our supply chain to minimize the cost impact and moving products around from -- within our supply base or within our manufacturing operations is item number one.

Item number two, is Project Reimagine. We're going to take about \$200 million out of our cost structure on a little over \$1 billion base. So that's a self-help area.

And then only third is the pricing action. And we've been really clear all the way along is we're going to put price around the globe wherever we can, where the market will bear, and that focuses on North America.

Operator^ Next question is from Joel Jackson with BMO Capital Markets.

Joel Jackson^ What's in your outlook that you expect next year, global sales flat, Europe up, the rest of the markets down a bit. Can you speak to knowing what your inventory levels will be at end this year, what that might mean for underproduction in the various regions we might expect next year?

Damon Audia^ Yes, Joel, obviously I think if we look around the world, Europe, we continue to be in a really good position. You didn't see much underproduction in Europe this year. And again, given the dealer inventories right now are sitting below our optimal level, I would say, sort of consider that relatively flat year-over-year, again, producing closer to retail or in line with retail, excuse me.

South America, again, the industry is picking up year-over-year. If you remember, we had a lot of underproduction here in the first half of 2025. And so as I think about South America, you probably see some incremental positive from absorption on the full year. It will be first half weighted and then we'll start to lap the comps that we're seeing here in the third and fourth quarter, where we're producing closer to retail.

North America is, again, is a little bit of a wildcard. Again, if you look at what we've said with North America large ag potentially being down, dealer inventories at eight months right now hoping to get that closer to our target, that would likely result in some underproduction here in the early part of 2026.

But as Eric said, given the recent news with the trade deal, with potential incremental subsidies, in my comment that if that changes the industry outlook for large ag that may help us accelerate or not have to underproduce. But again, North America is still a little bit of a TBD next year.

Joel Jackson^ And then finally, can you maybe talk about what sort of subsidy package, a magnitude might move the needle for your end customers? \$5 billion, \$10 billion, \$15 billion program, where that's \$50 an acre, \$100 an acre. Have you thought about sort of what's needed to move the needle to get farmers to look at capital purchases and not just deleveraging or working capital?

Eric Hansotia^ I think it needs to be over \$10 billion. \$10 billion to \$20 billion, anything in there will get farmers' attention. Granted, that money is not seen as the same as market-driven profitability. They're more likely with subsidy money to pay down debt and other things because they're not sure if it's going to be sustainable in the next year and the year after. So the, if the trade deal really sticks and there's a 3-year commitment to purchase 25 million metric tons type purchasing or more, that's going to drive confidence way more in farmers than will the subsidy.

Operator^ The next question is from Angel Castillo with Morgan Stanley.

Angel Castillo^ Just wanted to go back to maybe one of the earlier discussions on North America margins and tariffs. I just wanted to check, I guess, am I doing the math right based on what you talked about with the 1% of your sales. impact next year that, that kind of implies something approaching or kind of roughly \$1 of tariff headwind. So if you could just comment on that.

And then just related to that, I guess, based on what you're estimating today for kind of the North America outlook fully accepting that there's a lot of moving pieces still, which quarter would you kind of expect to see the kind of peak pressure in?

Damon Audia^ So Angel, can you, peak pressure in what regard?

Angel Castillo^ In terms of how you kind of spread that tariff headwind, which I'm assuming there's a little bit of a ramp-up, but can you -- as you kind of work through inventories and the flow-through of that tariff impact on your kind of P&L. So just curious which quarter would kind of be the peak of it before it starts to kind of comp your numbers?

Damon Audia^ Yes. Well I think the first question, again, if our sales right now are \$9.8 billion, I said less than 1%. So you're probably looking at sort of less than \$1, call it, closer to \$0.80, give or take, depending on how things finalize, again some of these tariffs, as you know are still changing. And those will influence some of the small horsepower tractors that we buy from others that are imported from other countries.

So I don't want to be too precise, but directionally less than that. And again, that doesn't take into consideration the pricing actions I mentioned as well. So again, when I gave Mig that number, that was the absolute tariff cost. That's not my net effect to P&L next year because I already have pricing actions in effect in parts, in PTx, for model year '26 equipment. And so that net number will be less than that. Again, we haven't given a specific outlook. We want to see how the fourth quarter unfolds, but it will be a lot less than that absolute number that I'm quoting you for the tariff costs themselves.

As I think about the cadence, we're starting to already see that flow through our P&L in North America, depending on the product again. As you know we buy a lot of these medium and low horsepower tractors from other companies, depending on the level of inventory that we had in stock and that our dealers had in stock, that's flowing through over a period of time, coupled with the cost that we're incurring for some of the raw materials we're purchasing for our assembly operations here in the U.S.

So again, I think it's going to phase itself in. As we get into the second quarter, I would think we'd work through most of the inventory that we've had, and we'd start to see more of the full effect I'd say, directionally around Q2.

Angel Castillo^ That's very helpful. And then maybe earlier, I think you had indicated that flat volumes next year would actually reduce your inventory levels by about half a month. And I think your current assumptions was down single digits. I guess, first, can you put a finer point on kind of what that assumption was for North America? Is that -- was it a mid-single digits or high single digits type of decline?

And then if for some reason, I guess, volumes in North America, large ag wind up being closer to down kind of mid-teens, which I think some investors kind of challenge checks suggest that might be a realistic risk. I guess, what's the sensitivity of your math impact on your inventory levels, if it were to be closer to the mid-teens and how much -- what does that mean for under production next year?

Damon Audia^ Yes. So I mean we haven't given a specific number related to what we were thinking for '26. Again, it's more -- as we look at the data, as we look at the analytical models running, we're starting to see it down, I think, as Eric said, sort of in that mid-single-digit range is what we were directionally looking at. I'd rather not speculate right now with all of the recent news that's come out this week. Again, I think, as Eric said, those are both net positive data points for farmers in North America. And we're hopeful that, that has more of a positive catalyst as we go into '26.

But obviously to the extent it was down, you're using your mid-teens numbers, we would be forced to keep the underproduction probably longer to continue to reduce the dealer inventories. We want to make sure that we're not -- that we're getting that down to that six months as quickly as possible. And again, given the numbers you hear us quoting with production down over 50% again in the fourth quarter, we're being as aggressive as we can in trying to minimize the putting incremental inventory into the dealer channel here.

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^ Yes. Thank you for joining us today and all these thoughtful questions. AGCO continues to make meaningful progress on our transformation journey.

We delivered a strong third quarter performance with strong margins, disciplined inventory management, accelerated cost reduction and healthy free cash flow generation year-to-date.

I'm really proud of the team for achieving this amid macro volatility by focusing on what we can control in a dynamic environment that always -- and always keeping our eyes on putting the farmer at the center.

In fact, the feedback we're getting from our farmers is real strong. Our Net Promoter Scores that are all-time highest level in the company's history. They like the net impact of our products and what we're doing with our dealers to serve them better.

In the quarter, Europe is our biggest market, continued to provide stability. We know farmers around the world are under pressure. Our priority is supporting them with efficient machines and technology that keep them productive and profitable.

We continue to execute our strategic shifts that sharpen our focus and unlock long-term potential including the TAFE exit, the PTx creation and Product Reimagine.

Our innovation flywheel is spinning faster than ever with new autonomous solutions and the launch of FarmENGAGE, reinforcing us as one of the most progressive leaders in smart farming. And I think you'll see that on display big time at Agritechnica, the world's largest ag show coming up here in a week or so. That will be a great way to engage with all of the exciting things that AGCO's got going on.

Our 2025 financial outlook reflects our confidence in the strategy and the strength of our global team. Even in this challenging environment, we are investing in the future, gaining share, executing with agility and always putting the farmer first. Thank you for your participation today. We really appreciate it.

Operator^ The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.