AGCO Corporation (Q2 2026 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:

- Michael Shlisky; D.A. Davidson; Analyst
- Tami Zakaria; JPMorgan; Analyst
- Jamie Cook; Truist; Analyst
- Kristen Owen; Oppenheimer; Analyst
- Unidentified Participant; Unknown; Unknown
- Jerry Revich; Wells Fargo; Analyst

PRESENTATION

Operator^ Good day and welcome to the AGCO 2026 Quarter Two 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 Second Quarter 2026 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 measures in the appendix of that presentation.

We'll make forward-looking statements this morning, including statements about our strategic plans and initiatives as well as their financial impacts. We'll also discuss demand, product development and capital expenditure plans and timing of those plans and our expectations concerning the costs and benefits of those plans and timing of those benefits. We'll also cover future revenue, crop production, farm income production levels, price levels, margins, earnings, operating income, cash flow, engineering expenses, 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, 2025, and subsequent Form 10-Q filings. 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^ Thank you, Greg. Good morning, everyone and thank you for joining us. AGCO's second quarter results reflect our continued focus on delivering products and technologies that make farmers more productive and profitable while driving efficiencies across our business, and also improve AGCO's profitability through the cycle. While sales in Europe and Latin America progressed below our expectations and farmers were increasingly cautious amid current market dynamics, we acted decisively to align production with retail demand, manage dealer inventory, and maintain strong discipline on operating expenses and working capital.

Net sales for the quarter were approximately $2.6 billion, 1% lower year-over-year. Our teams executed well and maintained consistent performance throughout the quarter, gaining market share in key regions. This is reflected in our adjusted earnings per share of $1.43, an increase of $0.08 over the prior year.

Operating income was $140.7 million for the quarter, a decrease of 14% year-over-year with reported operating margins decreasing by 80 basis points to 5.4%. On an adjusted basis, operating margin decreased 170 basis points to 6.6%, driven primarily by lower sales and production volumes and higher input costs, including tariffs. Those were partially offset by solid pricing, the benefit of certain EPA tariff refunds recognized during the period and ongoing benefits from our business optimization initiatives.

Our results demonstrate the resilience of our operating model in a dynamic environment, as we managed moderating demand, higher input costs and regional variability while continuing to deliver consistent results and maintain a strong financial position.

Conditions in the broader industry remain complex. Weather continues to play a significant role as elevated temperatures and drought conditions persist across parts of Europe, along with ongoing weather variability in North and South America. These factors are influencing crop development, yield expectations and, ultimately, farmers' decision-making.

At the same time, financing costs remain elevated and trade policy developments are adding another layer of complexity. While commodity prices have improved recently, farmers around the world have a heightened focus on maximizing net farm income. This environment is increasing demand for solutions that help manage costs, improve efficiency and protect yields.

That focus aligns well with AGCO's portfolio, particularly our precision agricultural solutions which help farmers boost productivity and often deliver payback in one to two years for our retrofit customers.

In this environment, our priorities are clear: to stay centered on being the most farmer-focused company in the industry, delivering high-quality innovations to solve farmers' toughest problems. Also to maintain discipline across the business to preserve operational flexibility and adjust production and cost levers as conditions evolve.

Over the past several quarters we have taken meaningful steps to simplify operations, improve efficiency and strengthen execution. Those actions are helping us manage through the current environment and sustain a solid level of performance even as volumes fluctuate at the trough of the cycle. We are also continuing to invest in areas that matter most to our customers, particularly smart farming and digital solutions that help improve productivity and reduce input costs that I will talk more about in a moment.

Slide 4 provides an overview of industry unit retail sales by region on a year-to-date basis through June. Across many markets, demand remained measured, reflecting affordability considerations, elevated input costs and a focus on near-term returns.

Farmers have experienced double-digit increases on inputs like fuel and fertilizer prices. These elevated input costs continue to pressure farmer economics and are contributing to a cautious approach toward fertilizer and equipment purchasing decisions. It is unlikely that farmers will see meaningful relief on these input costs in the near term which will likely result in many farmers staying conservative on their spending and applying less fertilizer, and that increases my optimism for 2027.

In North America, industry demand remained soft year-over-year with continued weakness in higher horsepower equipment as farmers defer larger capital purchases. We're also seeing softer demand in lower horsepower segments, reflecting the rural lifestyle customers’ focus on affordability in the current environment.

In Western Europe, industry conditions were mixed as input costs, demand and capital allocation considerations influenced equipment purchases. Tractor demand showed relative stability year-to-date compared to prior year levels, but weakened during the second quarter. Combine demand remained more cautious as farmers consider financing conditions and capital allocation priorities.

In Brazil, industry demand remained under pressure. Higher production costs and interest rates, tighter credit availability and currency dynamics continue to impact demand, with the greatest effect seen in larger equipment categories. Demand for smaller and mid-range equipment has been more resilient compared to larger equipment categories.

Across all regions, we continue to see farmers taking a disciplined and selective approach to equipment investment, prioritizing solutions that deliver clear productivity and efficiency benefits. This environment reinforces the importance of aligning production with retail demand and maintaining flexibility in how we operate the business.

While we face several near-term challenges, a number of factors could create a more supportive backdrop for commodity prices and farm economics over time. Elevated input costs, reduced fertilizer application and drought conditions in parts of the world are pressuring crop production and this is before the potential effects of the super El Nino. At the same time there continue to be increased discussions on accelerating demand drivers such as expanded ethanol with year-round E15 in the U.S. and renewable diesel and sustainable aviation fuel usage in the U.S., Brazil and Europe. All of these could support demand for key crops.

Combined with aging equipment fleets and the ongoing need for productivity gains, these dynamics reinforce our confidence in the fundamentals of agriculture. As the geopolitical environment stabilizes and input costs eventually moderate, we'd expect farm economics to improve and farmers will be better positioned to invest in fleet replacement and productivity-enhancing technologies.

AGCO's factory production hours are shown on Slide 5. On a year-to-date basis through June, production hours were up approximately 6% compared to the prior year, reflecting a significant increase in the first quarter off a low production base in early 2025, effectively in Europe.

In the second quarter, production hours were slightly lower year-over-year as we deliberately moderated output to align with our operating plan and current retail demand. Full year 2026 production hours are now expected to be slightly lower versus 2025. As the year has progressed, we have taken a more measured approach to production, including modest reductions in the second half to better align output with the end market demand, particularly in Latin America and Western Europe. This reflects our continued focus on matching production to demand and maintaining disciplined cost control and our cost structure.

Turning to regional inventories. Dealer inventory management remained a positive contributor to execution during the quarter as we saw lower dealer inventory levels in all three major regions. In Europe, dealer inventory months of supply were around three and a half months compared to just under four months in the first quarter, remaining well aligned with our four-month target range. Inventory levels across our brands continue to reflect disciplined channel management and healthy market positioning, providing flexibility to support customer demand while maintaining a focus on margin quality and mix optimization in our largest and most profitable region.

In Latin America, dealer inventories moved to approximately three and a half months of supply, down from four months at the end of the first quarter. Units were down approximately 5% as dealers continue to work through aged inventory, especially nontractor products. The reduction reflects continued progress toward our three-month target level despite our current industry outlook in the region.

In North America, dealer inventories improved modestly to just below seven months of supply, moving closer to our six-month target. Units were down around 7% in the quarter as we continue to right size dealer inventory levels. Reductions were led by the large agriculture segment, reflecting continued execution of our production and shipment plans designed to support channel health and align field inventories with retail demand.

Overall, we are pleased with the progress we are making with our dealers around the world, which increases our confidence of producing in line with retail demand next year.

Slide 6 reinforces how we're executing against our strategy to drive higher quality growth and expand margins over time toward our 14% to 15% mid-cycle target. That strategy has not changed with fluctuating market conditions. It continues to guide where we invest, how we innovate and how we create value for farmers and shareholders through the cycle.

In the current environment, what is most important is how our three high-margin growth levers are performing. High-margin products continue to support mix, our technology portfolio is driving differentiated value for customers, and our aftermarket business is providing a more stable and recurring revenue stream. Together, these three levers are helping to offset softer industry demand and reinforcing a business model that is less dependent on volume and more anchored in value and customer outcomes. You can see this playing out in our performance, where disciplined execution and a more balanced revenue mix are supporting margins and cash generation relative to the last cycle despite a more tempered demand backdrop.

This gives us confidence that structural improvements that we've made position us well to navigate the cycle while continuing to invest in the business and deliver consistent long-term returns.

Turning to Slide 7. Beyond the quarter's financial results, we continue to convert our Farmer-First strategy into tangible wins, from premium brand experiences to precision ag expansion and scaling AI. In our machinery brands, Fendt continued its strong momentum. The Fendt 800 series equipped with an AGCO Power CORE engine set an absolute new record in its class for fuel efficiency in the independent DLG power mix efficiency test. With rising operating costs, especially diesel fuel, every liter of fuel saved counts. And Fendt continues to set the bar high across the industry on fuel efficiency.

We also celebrated the 50,000 Fendt 900 Vario, a flagship high horsepower tractor that matters not only in Europe but across the world. Fendt value proposition is resonating, especially with North American farmers, and we're seeing that translate into meaningful market share gains.

Our precision ag and autonomy portfolio also moved into new ground. We launched OutRun, our mixed fleet retrofit autonomy solution in Brazil to a very strong early customer feedback, extending automation into sugarcane. Latin America, and Argentina in particular, continues to be a proving ground for our AI-enabled planting and sprayer technology across both our own dealer network and our OEM customers. We view this as a tremendous growth opportunity as these large technologies seeking farmers see the power and the productivity of our technologies.

And we continue to advance AI as a core enabler, but with a sharper focus. Rather than spending efforts across many experiments, we're concentrating on the areas where AI delivers the most value and can scale across the business including product development, customer acquisition and supply chain.

On the factory floor, AI-based vision and inspection in our Fendt transmission and tractor plants in Germany are lifting quality and throughput. In the field, AI-enabled tools and customer and dealer support are reducing downtime. We're deploying these responsibly with human oversight, applying AI where it drives both efficiency and growth.

This is what Farmer First looks like in practice. Better machines, smarter, higher-margin technology and focused innovation that help farmers perform better while making AGCO stronger.

With that, I'll turn it over to Damon to walk through the financial results.

Damon Audia^ Thank you, Eric, and good morning, everyone. Slide 8 provides an overview of regional net sales performance in the second quarter and first half of 2026. On a constant currency basis, the second quarter net sales were 4% lower year-over-year. For the first six months of the year, net sales increased approximately 6% on a reported basis and were essentially flat, excluding the benefit of foreign currency translation.

By region, net sales in the Europe, Middle East region were approximately 5% lower during the second quarter of 2026 compared to the same period in 2025 on a constant currency basis. Most European markets remained restrained during the quarter, while good performance in Germany and the United Kingdom helped offset a portion of the decline in countries like France.

North America net sales increased approximately 20% over the second quarter of 2025, excluding currency impacts. The increase was driven primarily by stronger unit volumes, led by high-horsepower tractors and hay tools and market share gains on many products.

Net sales in Latin America were 25% lower compared to the second quarter of 2025 on a constant currency basis. Industry demand remained challenged across the region, resulting in lower sales across all major product categories. However, pricing was effectively flat year-over-year in the quarter which was encouraging.

Asia Pacific Africa net sales were more than 6% lower, excluding favorable currency impacts. Higher sales in Australia helped offset lower sales across several Asian and African markets.

Consolidated replacement part sales were $516 million in the quarter, up about 3% on a reported basis and essentially flat excluding favorable currency translation. Parts demand remained stable during the quarter as farmers continued to prioritize maintenance of existing equipment fleets amid a disciplined spending environment. Activity levels varied by region, while overall demand remained consistent with our expectations and reflected the ongoing importance of aftermarket support across our installed base.

Turning to Slide 9. Adjusted operating margin was 6.6% in the second quarter, 170 basis points lower than the prior year. This primarily reflects the current demand environment in Latin America which continued to impact volumes and absorption.

By region, Europe, Middle East operating income was essentially unchanged from the prior year despite lower sales and increased engineering investment. Cost optimization and positive pricing contributed to the stable operating margins year-over-year.

North America operating results were generally in line with the prior year including a benefit of approximately $22 million from certain EPA tariff refunds. Results continue to reflect tariff-related costs as well as factory absorption associated with our demand aligned production approach.

Latin America operating income was approximately $49 million lower year-over-year, with the region continuing to progress towards breakeven. Lower sales volumes and higher engineering expense were the primary drivers of the change.

Asia Pacific Africa operating income was approximately flat compared to the second quarter of 2025.

Turning to Slide 10. Year-to-date free cash flow use was approximately $347 million compared to positive free cash flow of $63 million in the first half of 2025. As discussed earlier, production levels were higher in the first half of ‘26 than the prior period. As a result, inventory investment and working capital requirements were also higher, contributing to the year-over-year change in free cash flow. While cash usage was higher through the first six months, the results remain consistent with our expectations and support our full year target of generating free cash flow equal to approximately 75% to 100% of adjusted net income.

Our capital allocation priorities remain unchanged. We'll continue to invest in the business, maintain an investment-grade balance sheet, pursue targeted technology acquisitions and return excess capital to shareholders. Consistent with that approach, we repurchased approximately $345 million of AGCO shares during the quarter which include $293 million associated with the April $350 million share repurchase announcement and $52 million in shares from TAFE associated with the repurchase announcement from 2025. In addition, we recently declared our regular quarterly dividend of $0.30 per share.

Slide 11 summarizes our updated 2026 industry outlook on our major markets. Overall, agricultural equipment demand remains below historical mid-cycle levels as farmers continue to evaluate equipment purchases against uneven crop economics, elevated ownership costs and broader macroeconomic dynamics. We continue to see healthy long-term fundamentals supported by aging equipment fleets and the need for productivity-enhancing technology as well as increased discussions related to renewable fuels.

In North America, we continue to expect large agricultural equipment to be down approximately 15% below 2025 levels. We now expect the small ag segment to be down 0% to 5% compared to 2025, reflecting a more measured outlook from the rural lifestyle customers as higher financing costs and broader economic uncertainty weigh on discretionary equipment purchases. We continue to work with our dealers as well to ensure that they remain focused on managing their inventory levels.

In Western Europe, we are updating our outlook for modest growth to approximately flat year-over-year. While certain markets continue to perform well, overall demand has moderated relative to our expectations entering the year. Higher input costs hot and dry weather and ongoing policy and regulatory developments have resulted in a more measured demand environment.

In Brazil, we are updating our forecast from 5% below 2025 levels to 5% to 10% lower. Industry demand has remained more cautious than expected, reflecting continued influence from financing costs, tighter credit availability and ongoing farmer profitability considerations. Brazil's government just recently activated its subsidized loan program last week, but the late start has further pressured the industry outlook. Despite near-term conditions, we continue to view Brazil as one of the world's most attractive long-term agricultural markets, supported by expanding crop production, rising global food demand and favorable long-term fundamentals.

While these market revisions are relatively modest, we have updated our full year financial expectations, which are summarized on the next slide.

While global industry demand remains at a low level, operating at around 85% of mid-cycle demand, we continue to expect AGCO to outperform underlying markets through market share gains and the strength of our portfolio.

Our outlook now assumes pricing realization of 2% to 2.5%, updated from 2% to 3%, favorable currency translation of 2%, revised from positive 3%, and continued market share gains in key regions. Our pricing outlook has moderated modestly since the beginning of the year, reflecting the current industry environment, especially in Latin America and Europe, Middle East. Inventory management remains a top priority, particularly in North America and Latin America as we continue aligning production with retail demand and dealer inventory requirements.

Our outlook reflects the current tariff environment and the mitigation actions we have implemented through pricing, sourcing and cost initiatives. Based on current policies and recent developments related to IEEPA, Section 301, Section 232 and Section 122 tariffs we now expect gross tariff-related costs of approximately $115 million in 2026. We recorded $22 million of certain IEEPA tariff refunds in the second quarter, reducing our net tariff impact to $95 million for the year. This represents an increase of $50 million compared to last year and does not assume any potential benefits related to future IEEPA refunds. These estimates are aligned with current policy and trade conditions which we may update as conditions evolve during the year.

Engineering investment remains a strategic priority, with spending expected to be approximately 5% of sales. Production hours are now expected to be slightly lower than 2025 levels as we continue to align our output with retail demand and support dealer inventory objectives through the balance of the year. Operational efficiency initiatives are expected to deliver $60 million to $70 million of benefits in 2026, reinforcing ongoing transformation progress. Together, these assumptions support an adjusted operating margin of approximately 7.5% for 2026, reflecting our updated volumes and pricing inputs, partially offset by operational efficiencies and continued cost discipline.

Finally, we continue to expect our full year effective tax rate to be between 31% and 33%.

Moving to Slide 13. Based on our updated market outlook, we now expect full year net sales to be between $10.1 billion and $10.2 billion. This reflects current lower demand expectations in Western Europe, Brazil and North American small ag along with more modest contributions from pricing and foreign currency translation than previously planned, primarily within the Europe, Middle East segment. Adjusted earnings per share are now expected to be in the range of $5.50 to $5.75 per share. The revised outlook reflects our updated volume assumptions partially offset by focused cost management, current tariff policies, operational efficiencies initiatives and share repurchase activity completed during the year.

Given the current industry environment, capital expenditures are now expected to be in the range of $300 million to $325 million, driven by project timing and execution efficiencies while maintaining our current commitments to strategic growth initiatives and manufacturing capabilities.

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

Third quarter net sales are targeted between $2.3 billion and $2.4 billion. The third quarter earnings per share are targeted between $0.85 and $0.90, reflecting the alignment of production and demand, especially in Latin America and Europe, Middle East, cost execution and timing efficiencies as well.

The third quarter EPS target excludes any impact from potential additional IEEPA tariff refunds.

The sale of our equity interest in the AGCO Finance U.S. and Canadian joint ventures generated a $20 million benefit in other income / expense during the second quarter. As mentioned last quarter, this benefit represents the upfront recognition of earnings that otherwise would have been recognized through equity and earnings of unconsolidated affiliates which we expect to be lower in the back half of the year.

Before opening the call for questions, I'd like to remind everyone of two events. First, our meeting at Farm Progress Show in Boone, Iowa at 10 a.m. on September 1. Second is our 2026 Tech Days event near Chicago this October. This event will include a strategic business update as well as live demonstrations of our precision agriculture technologies and FarmerCore capabilities. We look forward to hosting many of you at these events.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Our first question comes from Mike Shlisky with D.A. Davidson.

Michael Shlisky^ I guess I want to start off asking about the market share that you noted, the gains in share. It looks like you certainly gained some share in North America. Can you share a little bit about the 2% increase that you saw overall beside market share on just the pricing in North America? And also the mix, was there any additional attachment of PTx or other -- or higher horsepower, et cetera. Is there anything we should isolate there besides the share gains that might have driven the upside in North America?

Damon Audia^ Yes. I think, Mike, as you touched on, the share gains continue to have good momentum here in North America, especially in the high-horsepower segment. Again, we're seeing very good traction both with the Fendt brand, as you know which is our premier brand, but also with Massey Ferguson and the high-horsepower there, coupled with their affiliation with hay, all of that did quite well in the quarter.

Pricing in North America was exceptionally strong for us, almost around 3.5% in the quarter. So not only have we gained share, but also a strong pricing discipline there which helped us deliver pricing of over 2% for the company in the quarter. And again, I think it goes back to some of the prior conversations we've had with the market share last year and the momentum this year that you're seeing great product quality, great product performance. But dovetailing that with our FarmerCore initiative, where our dealers are really servicing the farmers in a different way and being on the farm, helping them do it in a much more convenient way. When you put that alongside the product performance, we feel we've got great momentum, and the team in North America had a great quarter here.

Eric Hansotia^ I will just build on that. This is Eric. Then when you look at the data on FarmerCore, the dealers that are performing the best on FarmerCore have 4.5 points higher Net Promoter Score and 1.5 points higher market share. We continue to get more and more on-farm service capacity. We're up to 65% now in North America, and the Brazil fleet grew 25% in the last year. So this is a very fast-moving adoption by our dealers and well received by the farmers.

Michael Shlisky^ Great. Thank you so much for that color. My follow-up question is also on market share. Can you maybe just -- maybe it's a two-part question. One, any progress you made in combine market share, I'd love to hear about that. Then secondly, just taking us around the world, any other regions where you think you may have gained a bit of share so far in 2026?

Damon Audia^ Yes. I think combines overall, Mike, as you know we're a very small player really no significant traction this time of the year, still early in the season, especially in the Northern Hemisphere. So no real meaningful movements there. When I think about share in other parts of the world, Europe, we were kind of a mixed bag here. So the industry in Germany shrunk quite a bit relative to our expectations, but we gained share in Germany, lost a little share in France. So Europe overall is kind of a mixed bag and South America had a modest gain for us.

Greg Peterson^ And Mike, in South America, I think we -- as we talked on the previous call we've introduced Fendt into Argentina. So we've seen, as we're picking up sales there, we're obviously picking up market share in Argentina with the Fendt brand.

Eric Hansotia^ Yes. I think our combine share is going to grow here in the near term over the next year or two for a couple of reasons. One, Net Promoter Score for combines in South America jumped by more than any other product in our portfolio. Same thing in Europe. So farmers are really liking the latest features that we've launched and the quality that's coming out with those products. Then secondly, we've had some dealers in North America convert from a competitor brand to our brand. So whether it's product performance or channel support and alignment, I think both of those bode well for our combine business going forward.

Operator^ Our next question comes from Tami Zakaria with JPMorgan.

Tami Zakaria^ Good morning. I hope you can hear me well. I'm on the road. So a question on farmer income or the health of the farm economics. If input costs don't see a relief in the near term, like you said, how are you preparing for demand in the next 6, 12 months across your key regions? In your outlook, is there a scenario that equipment demand could remain weak at least through the first half of next year, and if so, what would be the strategy in case of -- in terms of production versus retail demand?

Damon Audia^ Yes. I think Tami, we're -- as you would expect, we're doing a lot of different scenario planning right now as to how the back half of this year and early '27 and '27 overall could play out. I think the way to think about this is over the last 18 months or so, we've been cutting production significantly, in different parts of the world to different degrees, but especially here in North America, along with South America trying to right size those dealer inventories. And as we sit here today going around the world, Europe, we're actually a little bit below where we want to be. We're sitting at just around three and a half months. We want to get those dealers more along the lines of four months. Latin America, we're at three and a half, we want to get them down to 3. So we're under producing quite a bit. In the quarter, we underproduced in South America by around 30 -- hours were down around 30% year-over-year. So we're continuing to cut production quite heavily there. Our dealers are doing a great job with our team really moving through a lot of that aged inventory that's on their yards. And again, coming off that peak, there was combines, sprayers, planters, a lot of that is what they're moving through. The tractor inventory is quite healthy at the dealer level, but you're moving through a lot of this other equipment that is aged, and I think we'll be in a good position to get through that this year.

So as we look at what that means next year, even if the industry is flat in South America, we're going to be producing at a much higher level, and we're not going to be giving those levels of discounts that we're currently partnering with our dealers move that aged inventory. So South America, we feel very good.

When we look at North America, we brought the into dealers inventory now is just below seven months. So a little bit of work to do there. But again the team is making good progress. So as we grow the share that you heard on the prior question, we'll continue to watch the production of what we're making. But again similar to South America, we should be in a better position as the dealer inventory gets healthier to be more aligned. But we're going to watch the outlook. We're going to look at our analytical models, and we're going to make sure that we don't put too much into the dealer inventory until we get more visibility on the retail demand coming here.

Eric Hansotia^ That's a great summary on the wholesale business. Maybe I'll talk a little bit about retail as well. So, you're asking about farmer profitability. The biggest pressure has been fertilizer and fuel over the last little while, and that's largely tied to the Strait of Hormuz. So that one is an unknown. And who knows how long that will last. But there's other elements of the farmer equation. So the top line in terms of demand generation, we see a lot of things either implemented or brewing that could help the farmer. Brazil has already implemented their Fuel of the Future, and that's driving ethanol growth from 27% to 35%. We're seeing a lot more ethanol demand in Brazil which is consuming the corn crop in addition to sugar.

Europe ReFuel Aviation is already implemented, and that's to grow sustainable aviation fuel from 2% of the market to 6% by 2030. So that one is implemented. The big one that is a new one that we think is more likely to happen than not is E15 all year round in the U.S. That will consume -- today ethanol represents about 36% of the corn crop that could drive it all the way up to 50% of the corn crop, significant demand generator and then renewable diesel and sustainable aviation fuel in North America could grow to as much as 40% of the U.S. corn crop. So -- I'm sorry, soybean crop.

So -- and then there's one more about renewable fuel going into ocean-going vessels act that's working its way through Congress which would be another big generator of soybean demand. So those are all demand generators for top line. We're already seeing grain prices move up. Those would all make those -- move up a lot more to offset some of the cost impacts -- and we've got the aged fleet. The fleet is aged as it's been. We expect that because of the high fertilizer prices, farmers have put down less fertilizer. So we could see an impact to grain production coming into the back of this year if that has materialized.

So a lot of moving parts there, but there are several reasons to be positive about what could be coming for farmer economics, even if their cost situation doesn't relieve itself in the short term which is tied to the Strait.

Tami Zakaria^ Understood. That's all very helpful. And just to clarify, I may have missed it. But under the updated guidance, what would be your underproduction percentage versus retail demand in North and South America as you exit this year.

Damon Audia^ So the underproduction relative to retail demand in South America, Tami, is going to be probably 15% or so relative to retail. Underproduction relative to North America will be a little bit less. And again I think Tami, remember, what we make in North America are the track tractors, the sprayers, the planters, the Gleaner combine, so that production is quite low. What we're seeing is great momentum in market share on the tractor part of the portfolio which is coming from Europe. And so that's probably a little bit of a disconnect there because when you look at our revenue and our sales, again coming from a little bit more of our imported products, but we will continue to underproduce those products relative that we make in North America relative to retail demand.

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

Jamie Cook^ I guess two questions. One, Damon, just on Europe, I'm not surprised you're low in guidance for the back half of the year. I guess I was a little surprised by the second quarter. So was there anything other than France or company-specific that resulted in the softer results in EME relative to your expectations? Then just because Europe is so important to your company as a percent of earnings, how are you thinking about margins in the back half for the EME region?

Then my second question I think you said the third quarter is going to be like $0.85 to $0.95. So I'm just trying to understand the bridge third quarter to fourth quarter, that would make the fourth quarter up so much anything other than -- I mean you talked about production being down, but I'm wondering if there's anything else positively coming in, in the fourth quarter to hit the full year

Damon Audia^ Yes. So I think Jamie, if I think about the second quarter and as we said in our pre-scripted remarks, it was a surprise to us. Europe has been doing quite well in delivering on their forecast. So the miss was a big surprise. When we unpack sort of where the surprises were. I'd tell you, it was really two pieces. One of that was sitting in Germany. As you know when you look at our dominant market share in that country and the size of that market being one of the largest markets, the European -- sorry, the German market was significantly softer than what we had anticipated when we gave our Q2 outlook. The market was down probably about 15% more than what we had anticipated. And again given our market share, even though we grew share in Germany in the quarter, that market contraction relative to what we had expected was a big driver to the earnings of Europe.

The second one was the dealer inventories. Again given the uncertainty in the marketplace right now as Eric was talking about with fuel costs, fertilizer costs, a lot of uncertainty sitting in the -- at the farmer level. That, obviously as you would expect, has rippled over to our dealers, not wanting to take on inventory. So when you look at our dealer inventories last month, last quarter, excuse me, we were just at around four months in Europe. We're down to around three months, three and a half months, that's a couple of hundred million dollars of a change of sell-in versus sellout. And again I don't think -- we were not anticipating that level of dealer decline, but just given the macro backdrop, the CEMA indicators really falling down in the quarter. All of those things drove the decline in Europe versus what we had expected.

So that was sort of, I'll call it, the surprises that we've experienced here in the, in the quarter related to Europe. If I think about the second half, the margins we are going to see the European margins drop, again, they're at 15% this quarter. They're going to drop in the third quarter. That's not uncommon given the normal summer shutdown. But again, given the industry outlook that we have now being relatively flat, we're going to take out some incremental days out of production in Europe. So I would expect to see the European margins kind of be in that low double digits, so call that 11%, 12% range. Then as we come out of that summer shutdown, we really start to pick up production. We have our strongest selling season, our strongest selling quarter in the fourth quarter in Europe. So we should see that revenue growth year-over-year. coupled with the increased production, we'll get those margins back up into the high teens. That should bring us more to a better balance for the full year.

Jamie Cook^ Right. Then just anything other than production on the bridge fourth quarter to third quarter?

Damon Audia^ It's going to be revenue. We're going to see a significant growth. I would put revenues in Europe, Jamie, probably around 1.3 or so 1.4 in the third quarter, and we'll see that because, again that's taking production out. So we're not going to be selling a lot and then going north of $2 billion in Q4.

Greg Peterson^ Then, Jamie, also our pricing, our new model year pricing, we'll see more of that in the fourth quarter than the third. So pricing is also part of the equation.

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

Kristen Owen^ I appreciate all the color on the 2Q sort of Europe, what happened. I'm wondering if you can talk to us a little bit about what you're seeing in terms of order velocity now in Europe. Commodities have actually come up quite a good bit since the close of the quarter, especially wheat. Fertilizer prices have kind of corrected. So I guess I'm just trying to tease out how much of your Europe comments are, hey, we just had a cautious surprise in 2Q, and so we want to roll that forward, what's actually reflected in your orders?

Damon Audia^ Yes. So Kristen, I think right now again remember, Europe sort of has this August holiday and the velocity of orders are not there yet, a lot of our dealers and many companies are sort of shutting down here for the month of August. But if you look at our order board, right now we're still sitting at around three months of orders in Europe. So not bad. Now we're down a little bit, if you remember last quarter, I said we were around three to four months. So we're seeing a little bit of softening. I think we've got to sort of get through this August and let's see how as the farmers, the dealers start to come back in, start to think about the balance of the year, where commodity prices are, I think we're more optimistic that we see that pick up really in the September timeframe and then into the fourth quarter.

Kristen Owen^ Okay. That's super helpful. Then I wanted to follow up on the North America comments. Really strong large ag in the quarter. Can you just help us understand how much of that is sell-in versus sell-through. Then when we think about the impact of that high-horsepower mix on margins, I mean Damon, you mentioned in one of the prior questions, that's more imported form factors. How do we think about that mix effect factoring into the margins in the second half of the year?

Damon Audia^ Yes. So I would tell you, Kristen, mainly effectively -- it was sell-through. When you look at the dealer inventories, again they came down a little bit, but we actually reduced the number of units on the dealers' lot in North America by around 6% sequentially. So we're gaining share and it's a sell-through to the dealers here -- or sorry, to the farmers. So good momentum on growing the high-horsepower share at the retail level, not just putting it at the dealer level.

When we think about the mix here. Again as you would expect, those tractors, high-horsepower, relatively good mix. And as we think about the balance of the year here for North America, you're going to be a little bit of a seasonality effect here with the third quarter we should see some improvements in the margins sequentially as well as year-over-year as we have a little bit of a stronger quarter on the sales and then likely it dips back down a little bit as we move into the fourth quarter, pending something significant happening here in the U.S. market related to subsidies or anything like that, that may trigger farmers sort of ramping up other purchases here at the end of the year.

Operator^ Our next question comes from Judah Arnovitz with UBS.

Judah Arnovitz^ I'm on for Steve Fisher. The first question is about Brazil. The updated market outlook seems to imply kind of improvement in the second half relative to the first half. Found that a bit surprising just given where the market is now. So I guess what's driving the improvement in the second half? And I guess how reliant is this outlook on government stimulus or other factors later in the year?

Damon Audia^ Yes, Judah. So we do expect the second half to be a lot stronger or in the industry, and part of it is, as you alluded to, the subsidized financing programs. The Brazilian government has announced two different programs. One was the normal FINAME funding, so that information came out a little while ago. It was about 1% lower interest rates this year versus last year. And then they had a special program that the government had announced earlier this year, that was around BRL 10 billion that has an interest rate of just over 9%.

So that information was public, but there was no details for farmers and dealers to begin to access that. That's what you heard in my scripted comment, is that just came out late last week, that was announced. So a little bit delayed versus the historical release of that information. So that normally is a good stimulus for farmers because now they can get the subsidized rates relative to the normal borrowing rates in Brazil. So we see that as a catalyst for the back half of the year.

The other thing is, as you know there is an election in Brazil coming up here later on this year. And historically, during those election years, you see a lot of incentives or things to help spur the ag economy as we go through that election cycle. So now that the FINAME information is out and accessible by farmers, coupled with some of the -- with the election, we feel that there should be a pickup in demand here as we go into the back half of the year.

Judah Arnovitz^ Okay. That's helpful. Then just a question on price/cost. You lowered the price range and the tariff impact is a bit lower. But do you expect it to be price/cost neutral on a dollar basis this year? Then could you help us think about the margin bridge from '26 to '27. There are a lot of moving pieces in '26. So I guess what are the key items to keep in mind for next year price/cost, regional or product mix, diesel cost.

Damon Audia^ Yes. So if I look at price/cost, if I look at just price versus traditional inflationary headwinds that we would normally talk, so excluding tariffs, even in the 2% to 2.5% range, we would be price/cost positive. Now when I factor in the tariffs and including the IEEPA rebate, as I said, that's around a $50 million headwind year-over-year. With that -- with tariffs inclusive, I will not cover all of that at the 2% to 2.5% range we'll be negative when you include tariffs. But operationally, we'll cover this year. It's just that tariff headwind, assuming no incremental rebates will likely be negative.

As I think about '27, it's obviously with the uncertainty we're dealing with, it's a little too early to tell. If I think about what some of the big blocks are that we should expect to see in '27. We'll see some carryover of our savings. So the organizational restructuring that we've been talking about, that $60 million to $70 million that we're going to monetize this year, things that are being put in place this year, there will be a little bit of a carryover next year. So we think that will be an opportunity.

As I said on some of the prior questions, production relative to retail, we should be producing closer to retail. So that would be a positive for us in several markets. And then we've got to figure out where price versus inflationary costs are going to be and what the industry is going to look like. So we should have a couple of positive building blocks going into '27, but it's still going to be heavily influenced by what that industry is going to look like next year.

Operator^ Our next question comes from Jerry Revich with Wells Fargo.

Jerry Revich^ Eric, Damon, I'm wondering if you could just talk about what the demand cadence has been for the short-cycle precision ag business, the GPS kits, how has that fared as we've gone through the year? And can you just talk about the broader precision ag performance this year. Any revisions with the broader top line revisions that you folks laid out?

Damon Audia^ Yes, Jerry. I'll start and then Eric can maybe give his view. He's close to the PTx organization. I think overall, PTx as a group did fairly well in the quarter, I think very close in line with our expectations. Remember, there's three components to that. There is the PTx products that we're selling to the AGCO factories. That continues to have a very high penetration rate fluctuating, as you would expect, based on the industry. We have the other OEMs. So there's 100-plus OEMs that we're selling to. Again, have not lost any of those customers, continue to do well with them. But as the industry is weakening around the world, we're seeing that sort of slowdown not due to share loss but more due to industry. And then the retrofit channel has continued to stay relatively strong comparative to the overall OEM industry. So again, good quarter relative to our expectations. Relative -- I'd say relatively flat year-over-year despite the industry being down. And for the full year, we still think that we'll be flat to maybe modestly up versus the $860 million that we did last year. So overall, the team is doing quite well in delivering.

Eric, anything you want to add?

Eric Hansotia^ Yes. We're staying on track. If you take a step back and say strategically, what are we trying to achieve with the business and we're trying to drive innovation on the one hand and channel development on the other. So innovation, we launched 14 products last year. We're on track to launch another 12 this year. So we feel really good about the innovation pipeline, solving a lot of farmers' toughest problems.

Then in the channel as Damon talked about, there's various types of channels. There's the retrofit channel and then the AGCO dealer channel. The AGCO channel, we're up to 320 dealers now that we've got armed to sell PTx as part of their business. Then the broader tech channel that they sell the entire portfolio of all the solutions, it's this combination of former Trimble dealers and former Precision Planting dealers, we call those Elite dealers, and we're up to 85 dealers now, about 50% of the market is covered by those. Over 90% of the market is covered by a PTx dealer. What we're just trying to do is melt those together into Elite dealers, and so that continues to be on track. So the structural investments and changes are all moving forward like we expect them to, just need some farmer profitability to be able to embrace the new technologies that we're delivering.

Jerry Revich^ Hopefully, you'll get some help there. Then in terms of the outlook for Precision Planting heading into next year. Eric, can you comment on whether you have any initial indication of interest on how the demand cadence for your planters, first fit or retrofit wherever you have visibility for the next planting season might look like? Then heading into your Tech Day you mentioned 12 new products. Any one or two that you think will really move the needle for AGCO into next year that you'd like us to focus on as we head into the event?

Eric Hansotia^ Yes, a couple of things. I would say it's -- so you had a few parts of the question. Real quickly, it's too early for ordering for next year yet on things like planters. But strategically, if you had to say what is most likely to happen, planters and combines have been down more than the rest of the market. So as we start seeing recovery in '27, I would expect those to feel more of that recovery. So we're bullish on that for overall industry demand. Relative to technologies, hitting the bottom line, the biggest thing is our targeted spraying Symphony system. We're up 35% in sales this year compared to last, really getting a lot of positive, we're sold out, a lot of positive reaction to that.

In terms of an interesting topic that probably won't hit the bottom line in the short term is our autonomy system called OutRun. We just showed that to customers in Brazil. First one is to launch into Brazil and both in crops and now in sugarcane and overwhelmingly positive reaction to the OutRun system to make the machine autonomous, both our brands and competitive brands. So those are of interest, but we're at the very bottom of the S-curve on that one, further up the S-curve on the targeted spraying.

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^ Well I'd just like to say thank you for joining us today and your continued interest in AGCO. The second quarter reflected a more challenging demand environment but also demonstrated the discipline and resilience we're building into the company. We're aligning production with retail demand, managing inventory, controlling costs and protecting cash generation, while continuing to advance our Farmer First strategy.

That strategy is showing up in tangible ways. Fendt is gaining ground in North America, precision and autonomies expanding into new applications and AI is being deployed where it can improve quality, uptime, efficiency and growth. For farmers, that means practical innovation that helps improve productivity, efficiency and profitability. For shareholders, it means disciplined capital deployment, continued investment in strategic growth areas and meaningful share repurchases, while maintaining our commitment to long-term value creation.

While the near-term environment remains challenging, the long-term fundamentals of agriculture remain strong. Structural demand for key crops, aging equipment fleets, the need for productivity enhancing technologies and growth in precision agriculture, all give us confidence in the industry and AGCO's ability to create value through the cycle. As we move through the balance of the year, we will stay focused on what we can control: production alignment, cost discipline, working capital management, market share growth and continued investment in the technologies and brands that position AGCO to outperform through the cycle.

Thank you for your continued support in AGCO. We appreciate your partnership and look forward to updating you on our progress.

Operator^ Thank you for joining the AGCO earnings call. The call has now concluded. Have a nice day.