

AGCO Corp (Q4 2024 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

- Stephen Volkmann; Jefferies; Analyst
- Tami Zakaria; JP Morgan; Analyst
- Mircea Dobre; Mircea Dobre; Analyst
- Kristen Owen; Oppenheimer; Analyst
- Jamie Cook; Truist; Analyst
- Jerry Revich; Goldman Sachs; Analyst
- Kyle Menges; Citi Group; Analyst
- Angel Castillo; JP Morgan; Analyst
- Michael Feniger; Bank of America; Analyst

PRESENTATION

Operator^ Good day. Welcome to the AGCO Fourth Quarter 2024 Earnings Call.

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

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

Greg Peterson^ Thanks. And good morning. Welcome to those of you joining us for AGCO's fourth quarter and full year 2024 earnings call.

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

The non-GAAP measures used in the slide presentation are reconciled to GAAP 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 their financial impacts.

We'll discuss demand, product development and capital expenditure plans, the 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 are subject to risks that could cause actual results to differ materially from those suggested by the statements.

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

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

Further information concerning these and other risks is included in AGCO's filings with the Securities and Exchange Commission including its Form 10-K for the year ended December 31, 2023, and subsequent Form 10-Q filings.

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

Later today, we'll make a replay of this call available on our corporate website.

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. Earlier today AGCO reported fourth quarter results for 2024, where we delivered a strong 9.9% adjusted operating margin and \$1.97 in adjusted earnings per share and sales that were down 24% from quarter four last year.

On a full year basis, we achieved an 8.9% adjusted operating margin and \$7.50 in adjusted earnings per share and sales that were down 19% from 2023. The adjusted operating margin performance is by far our best performance in an industry downturn.

What makes it more impressive is that the North American industry decline in 2024 was the worst single year decline since the downturn in 2009, associated with the financial crisis.

Our margin resiliency in this challenging environment is clear evidence that we have structurally improved the company through our ongoing transformation efforts over these past years.

I want to take a moment to thank the AGCO team around the world for delivering such strong results for the year, despite a challenging and dynamic macro environment and at the same time with significant portfolio shifts that occurred in our business. The organization teamed up and put Farmer-First reinforcing AGCO as the most trusted partner for industry-leading smart farming solutions. 2024 was a transformative year for AGCO.

We closed the largest ag tech deal in our industry's history with PTx Trimble joint venture.

We also exited a non-core part of our business by divesting the majority of the Grain & Protein business. These portfolio changes helped us enhance our strategic ambitions and allow AGCO to focus on agriculture machinery and precision ag technology. These strategic changes will also provide margin tailwinds for us over the long term as we outlined at our Analyst Day in December.

On the Precision Technology side of our business, we combined all our brands under the newly launched PTx brand so that we can swiftly unlock synergies across the enterprise and grow Precision Ag sales to \$2 billion by 2029.

We have already demonstrated tremendous progress in 2024, where we now have over 1,000 PTx dealers, all while continuing to foster relationships with over 100 OEMs.

Looking to the future, we know our independent retrofit dealer network is an absolute key differentiator for us that provides unmatched product expertise and support to farmers regardless of the equipment brands they prefer. Autonomy, targeted spring and off-board technologies will become more mainstream in the coming years. AGCO is poised to partner with farmers at any point in their technology journey. The depth of our product portfolio and unique consultative go-to-market approach allows us to offer a wide variety of products for any brand in vintage of machinery, and this is a very difficult thing to replicate.

In addition, given our Farmer-First focus, we also rolled out our Farmer Core initiative in 2024 and further streamlined our distribution network by partnering with some of the greatest dealers so that we can best serve farmers on farm, online or on-site at the dealership, the way they want to be best served. The Fed portfolio in North America comes with an industry-leading uptime commitment, and our Farmer Core strategy is designed to help deliver that uptime.

We expect rent coverage in North and South America to continue its growth trajectory and reach approximately 82% in 2025 through these continued efforts. The quarter wasn't without challenges, however. The dealer inventories remain higher than target going into 2025.

On a weighted average basis, we have between one and 1.5 months of excess dealer inventory to work through. To address this, we are planning to significantly underproduce retail demand again in 2025. Although we anticipate further declines in large ag machinery volumes in 2025, recent sentiment surveys and many of our recent interactions with farmers show a sense of cautious optimism that is an improvement from where we were just six months ago. Recent positive news around the stocks-to-use ratios and commodity price rallies have improved farmers' expectations about future profitability. The byproduct of this is a back half-weighted outlook for AGCO.

To best position ourselves in this environment, we anticipate more significant production cuts in the first half of the year, offset by modest growth in production hours in the back half as we lap easier comparables.

Finally, we will see cost savings begin to materialize in earnest around mid-2025 as our rightsizing transformation initiatives begin to manifest in the P&L.

We expect these efforts to mitigate some of the weak industry demand. Despite a lower sales forecast and significant underproduction, we expect higher and more resilient margins compared to past cycles due to the structural improvements in our business.

Slide 4 details industry unit retail sales by region for 2024.

Global industry retail sales of farm equipment continued to be weak in all of AGCO's key markets.

We expect the bottom of the cycle to occur in 2025. North American industry retail tractor sales decreased 13% during 2024 compared to the previous year.

Sales declines were relatively consistent across the horsepower categories with higher horsepower categories declining more in recent months. Combined unit sales were down 22% in 2024 compared to 2023.

Lower projected farm income and a refreshed fleet is expected to pressure industry demand even more in 2025, resulting in weaker North American industry sales compared to 2024, particularly in larger equipment. Brazil industry retail tractor sales decreased 4% and combined sales decreased 33% during 2024 compared to the previous year. Farm acreage in Brazil increased only modestly in 2024 after five years of more significant growth. Lower commodity prices, rising farmer debt and reduced demand from China created caution among Brazilian farmers.

Industry demand is expected to remain effectively flat in 2025 due to mixed market dynamics.

As with other cycles, industry demand will recover.

It's a matter of when, not if. AGCO will benefit from the long-term growth of the Agricultural Equipment segment thanks to a growing population and a middle class with diets that consist of greater amounts of protein.

With the actions we took in 2024, our consistent Farmer-First focus, we have positioned ourselves very well to capitalize on the growth of Precision Ag that is needed to raise yields and meet the world's growing agricultural needs.

AGCO's factory production hours are shown on slide 5.

We have eliminated Grain & Protein production hours for 2024.

Significant production cuts were made in all regions in quarter four, 2024, with the biggest reductions occurring in South America and North America. Given the continued weakening industry conditions, we reduced production hours even more than we planned as sales in the quarter were below our expectations.

Our production hours were down approximately 33% in the quarter four of 2024 versus low levels in the quarter four of 2023 and down approximately 28% on a full year basis versus the year of 2023 at a global level.

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

Sequentially, from quarter three to quarter four 2024, we saw modest reductions in dealer inventory, but we still have work to do, primarily in North America and South America.

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

We expect quarter one 2025 production hours to be down between 35% and 40% versus quarter one of 2024.

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

Our current outlook for 2025 assumes North America and South America will result in production less than retail demand at least through the first half of 2025.

Diving into the regional breakdown.

In Europe, we ended 2024 with dealer inventories at just over four months of supply, effectively in line with where we'd like. Fendt is under this average and Massey Ferguson and Valtra are slightly above. The near-target dealer inventory level in Europe is a real positive for AGCO given the significant exposure to the region.

In South America, we reduced a number of units on hand at the dealers by over 8% from quarter three level.

However, given the forward outlook, dealers are still holding around five months of supply versus our target level of three months.

We anticipate underproducing retail demand at least through the first half of 2025 to further reduce dealer inventory levels.

Similar, in North America, we reduced the units on hand at the dealers by approximately 7% from quarter three levels.

However given the challenging outlook in 2025, we are still approximately nine months of supply versus our six months target. The current environment will result in a significantly lower production levels at least for the first half of 2025.

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

To reiterate, these three growth levers are: number one, the globalization and full-line product rollout of our Fendt brand, where we now expect North and South America Fendt revenues to reach \$1.7 billion by 2029; number two, growing our Precision Ag sales to \$2 billion globally by 2029; and number three, focusing on accelerating our global parts business and increasing the market share of genuine AGCO parts to achieve approximately \$2.3 billion in global sales by 2029.

We rolled these new targets at our recent analyst meeting in December, and we appreciate those who were in attendance.

Moving to slide 7. You'll see a recap of Precision Planting's 2025 Winter Conference. That's one of my favorite events every year.

I just never miss it. This premier event attracted over 4,000 farmer attendees from across the globe.

The objective is to help farmers learn strategies and technologies that will help them efficiently and productively improve their operations, and they can all be implemented

immediately on their farms. The conference also gives them opportunities to connect with other farmers and experts to share knowledge.

One of the highlights from the event included an update on our Symphony Vision targeted spray system, which will begin deliveries in quarter one of 2025.

As you'd expect from us and our Farmer-First strategy, this technology can be retrofitted on all sprayers sold in North America in the last 10 years.

We are going to the market with two tier of offerings.

The first is Symphony Vision Rate, which allows farmers to leverage pulse with modulation technology with live vision variable rate control.

The second is Symphony Vision Spot, which adds spots spray control of each nozzle. Farmers can grow into the technology at a pace they prefer simply by adding additional cameras for the full spot spray feature set. Farmers will own the technology with no per acre recurring charge, enabling them to control weeds in a cost-effective manner year after year while maximizing tax incentives in the year of purchase.

Our unique independent distribution network emphasized retrofit first through a hands-on approach where the dealers are seen as trusted advisers by the farmers. The depth of the precision planting portfolio, coupled with the PTx Trimble product lineup allows AGCO to offer absolutely the most comprehensive suite of technology hardware and services, regardless of the make or year of equipment a farmer owns. AGCO's objective is to be the technology hub of the mixed fleet. This event is a testament to our unwavering commitment to innovation and shaping the future of the industry alongside our farmer partners.

I couldn't be more excited about what's ahead.

On slide 8, you'll see a familiar slide that highlights how our Precision Ag products can help farmers reduce every expense, except land, where we can positively impact over 70% of the costs on a given farm. The value-add and return on investment is clear for farmers.

We're seeing increased adoption of technologies even in this challenged ag economy. Let's take electric drive planter rollers in smart sprayer nozzle leaving our factories as examples.

In quarter four, we had electric drive planter rollers approaching 90% take rate.

Smart nozzle saw over a 50% take rate in quarter four and we expect that to grow significantly with Precision Planting Symphony nozzle.

2024 marked a significant milestone for AGCO's Precision Ag business.

We brought together two powerful brands: Precision Planting, known for its innovation and pharma focus; and PTx Trimble. These two working in a fully integrated way as one powerful team to build our market-leading Precision Ag technology focused on the mix suite. Through this integration, we have already made several changes to better position the business for success including recent leadership changes to enhance the focus on driving innovation and winning across all brands and farmers. These improvements accelerate our ability to deliver on being the most farmer-focused Precision Ag technology company in the industry.

We also made progress on transforming our technology stack with the PTx Trimble joint venture.

We recently launched our OutRun retrofit autonomy kit, and there's lots of excitement about it.

While the long-term opportunity is attractive, there are some near-term dynamics impacting the business.

As we indicated at our Analyst Meeting, sales and margin for PTx Trimble have been pressured given the rapid decline in the broader industry and the ongoing distribution transition. Related to the softness, we have taken a goodwill impairment charge in quarter four, which Damon will cover in more detail shortly.

Despite this, we know this was absolutely the correct strategic move and we'll continue integrating, innovating and growing the PTx portfolio of products and services to hit our 2029 sales target of \$2 billion. The short-term market environment has no effect on the strategic value of this asset and our confidence in achieving our \$2 billion sales target. Helping PTx accelerate development and deploying industry-leading solutions for farmers around the world, will be one of my top priorities in 2025.

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

Damon Audia^ Thank you, Eric. Good morning, everyone.

Slide 9 provides an overview of regional net sales performance for the fourth quarter and full year. Net sales were down approximately 24% in the fourth quarter compared to the fourth quarter of 2023 when excluding negative effect of currency translation and positive impact of acquisitions. Pricing in the quarter was roughly negative 1% compared to the fourth quarter of 2023.

By region, the Europe/Middle East segment reported sales down roughly 17% in the quarter compared to the same period in 2023, excluding the impact of unfavorable currency translation and favorable impact of acquisitions.

Sales were down in most countries with declines in Germany, United Kingdom and France showing the largest reductions. The products showing the most significant declines were high horsepower tractors, hay tools and combines.

However, part showed modest growth even in this environment.

South American net sales decreased approximately 24%, excluding the impact of unfavorable currency translation and favorable impact of acquisitions. The market continues to be challenged, and we continue to underproduce relative to retail demand, high horsepower tractors, combines and planters showed the largest reductions.

By geography, the Brazilian market was down the most, partially offset by increased sales in Argentina. Net sales in North American region decreased approximately 39%, excluding the impact of unfavorable currency translation and favorable impact of acquisitions. Lower farm income continues to pressure its farmer purchasing behavior.

High-horsepower tractors, hay tools and sprayers saw the largest declines.

Net sales in Asia/Pacific/Africa decreased 28%, excluding favorable currency translation and favorable impact of acquisitions due to weaker end market demand and lower production volumes. The most significant declines occurred in China and Australia.

Finally, consolidated replacement parts were approximately \$418 million for the fourth quarter, up 4% on a reported basis and up approximately 6% year-over-year when excluding the effects of unfavorable currency translation. A special thanks to the parts team around the world to deliver such strong results in 2024. Turning to slide 10.

The fourth quarter adjusted operating margin was 9.9%, a decline of 80 basis points compared to the strong fourth quarter of 2023. The weak industry conditions are resulting in significantly higher costs related to factory under absorption and higher discounts.

By region, the Europe/Middle East segment income from operations decreased by \$95 million and operating margins decreased 180 basis points from Q4 of 2023 to Q4 of 2024. The lower margins were a result of reduced sales volume, factory under absorption from reduced production and increased discounts. Although the industry was down in this segment and the results declined year-over-year, I would note that our team in Europe did a fantastic job growing share and driving cost savings, which helped deliver the second highest level of earnings from the segment ever.

So congratulations to the European team and their strong execution. North American income from operations in the quarter decreased approximately \$77 million year-over-year and operating margins decreased approximately 830 basis points. Lower sales from the weak market conditions, the divestiture of Grain & Protein, lower production hours and higher expenses associated with the integration of the PTx Trimble business are the primary drivers for the lower operating margins.

Operating income in South America increased by approximately \$15 million in Q4 of 2024 versus Q4 of 2023, and operating margins were roughly 11% in the quarter. Market conditions in the region have continued to remain weak, and we have reacted with significant production cuts for five consecutive quarters.

SG&A expenses were significantly lower in Q4 of 2024 compared to Q4 of 2023 due to the restructuring efforts.

We also had a onetime benefit in Q4 of 2024 of roughly \$4 million related to the mover program sponsored by the Brazilian government, which helped operating margins by around 140 basis points in the quarter.

Income from operations in our Asia Pacific/Africa segment decreased by approximately \$14 million due to higher discounts and SG&A.

As Eric mentioned, we did record an impairment charge of just over \$350 million in the fourth quarter related to the North American component of our PTx Trimble joint venture.

In the quarter, we performed our annual goodwill impairment assessment and concluded that the projected discounted cash flows would not support the current level of goodwill. The industry conditions in 2024 and the current industry outlook for 2025 negatively affecting the JV's sales and earnings during these early years were the primary reasons for the write-down. Despite this adjustment, I would reiterate what Eric said that the PTx Trimble joint venture is foundational to our autonomy ambitions offboard software suite and guidance solutions for not just AGCO machines but for the mixed fleet.

We've made great progress in integrating the PTx Trimble joint venture over the past two months and look to build on that momentum in 2025 and beyond.

We remain committed to our \$2 billion Precision Ag sales target for 2029.

Slide 11 shows our full three-year cash flow for 2023 and 2024.

As a reminder, free cash flow represents cash used in or provided by operating activities less purchases of property, plant and equipment. Free cash flow conversion is defined as free cash flow divided by adjusted net income.

We generated \$297 million in free cash flow in 2024, approximately \$288 million less than 2023 and lower than our expectations. The decline relative to our forecast in corresponding lower free cash flow conversion was driven by the lower-than-expected sales in the fourth quarter.

The decline year-over-year resulted primarily from lower net income.

Our capital allocation plan includes reinvesting back into the business, repaying debt to maintain our investment-grade credit ratings and rewarding shareholders with direct returns.

In addition to the regular quarterly dividend of \$0.29 per share, as a reminder, we also paid a special variable dividend of \$2.50 per share in the second quarter of 2024. AGCO has paid over \$1.2 billion in special variable dividends over the last four years.

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

Slide 12 highlights our 2025 market forecast for our three major regions, which have not changed from what we communicated during our December Analyst Meeting.

For North America, we expect demand to be meaningfully lower in 2025 compared to 2024. Despite the recent rally in corn prices, both soybean and wheat prices remain below the long-term average. Farmers are delaying equipment purchases due to higher interest rates and tighter profit margins.

We expect the large Ag segment to be down around 25% versus 2024.

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

For Western Europe, we expect the industry to be down somewhere in the range of 0% to 5%. Yields for grain and oilseeds remain below historical averages due to droughts in some areas in excess of rain and others.

Input costs for things like fertilizer and pest management remain high, further straining profitability.

For Brazil, after the significant decline we saw in 2024, we expect industry demand to be relatively flat in 2025. Farmer optimism around weather and positive progression of planting for soybeans and corn is expected to support retail demand for tractors.

Brazil is also seeing easing interest rates and stabilizing inflation, which will help contribute to similar demand levels as 2024.

Slide 13 shows the primary assumptions used to create our 2025 outlook, which excludes the Grain & Protein business that we sold on November 1, 2024.

We anticipate the 2025 global industry demand to be approximately 85% of mid-cycle, down from just over 90% in 2024.

Our sales plan includes market share gains and pricing in the 0% to 1% range, while foreign currency is projected to be around a 3% headwind.

With the announcement earlier this week, given the ongoing uncertainty on the impact to U.S. farmers retaliatory tariffs and the effect on other parts of the world, our outlook does not reflect any financial effects from tariffs.

As things become clearer, we will update our outlook accordingly. Given the diverse global manufacturing footprint, the announced tariffs related to China, Mexico and Canada would likely have a minor direct effect on our financial outlook.

However, retaliatory tariffs or U.S. tariffs on the EU would influence our current financial outlook.

Given this dynamic environment, we will remain nimble to address the situation, and we'll update our outlook as things evolve. Engineering expenses are expected to be approximately flat compared to 2024.

With the continued need to destock the dealer inventory channel, our production hours will be down between 15% to 20% in 2025, as Eric mentioned earlier. These production cuts will be primarily focused in the first half with the first quarter being down approximately 35% to 40% year-over-year.

With the lower level of sales and production in 2025, we expect our adjusted operating margins to be somewhere between 7% and 7.5%.

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

Lastly, our effective tax rate is anticipated to be between 35% and 38% for 2025, higher than 2024. The reasons for the higher rate are due to lower income in lower tax jurisdictions, primarily in the U.S. and our Swiss legal entity. Turning to slide 14 for our 2025 outlook, which remains the same as outlined at our December Analyst Meeting.

Our full year net sales outlook is \$9.6 billion, which reflects the market environment, the elimination of the Grain & Protein sales and roughly a \$300 million headwind related to FX.

The lost earnings from Grain & Protein, the adverse FX rates and the higher tax rate altogether reflect over \$1 of nonoperational adverse impacts to our earnings. When you layer on the further industry declines, we expect our earnings per share to be in the range of \$4 to \$4.50. Given the weak market environment, we are modestly reducing our capital spending to approximately \$375 million versus the \$393 million in 2024, which keeps AGCO well positioned for any future demand inflections.

Our free cash flow conversion target remains at 75% to 100% of adjusted net income as we look to further reduce working capital in 2025. Lastly, our Q1 2025 net sales are expected to be approximately \$2 billion, down approximately 32% from Q1 of 2024.

If you were to exclude the Grain & Protein sales from Q1 of 2024, our sales will be down roughly 26% on a like-for-like basis. Given the lower sales volumes and significant reduction in production hours we anticipate Q1 earnings per share to be approximately breakeven and on low point for 2025.

We remain confident in executing our strategy and delivering a more resilient business through the cycle.

Our adjusted operating margin outlook for 2025 would be over 300 basis points higher than the last time our industry is at around 85% of mid-cycle in 2016. This would be just another example of how we've structurally changed the business for the long term.

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

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And the first question comes from Stephen Volkmann with Jefferies.

Stephen Volkmann^ Damon, I'm just going to start off with your Q1 commentary.

I guess the implication there would be North America probably has a negative margin in the first quarter, but I don't want to put words in your mouth.

Can you just give us a sense of how you're thinking about the profitability by region in the first quarter?

Damon Audia^ Yes, Steve, I think you're right.

With the level of underproduction that we're expecting to see in the first quarter, North America would likely be in a negative margin. Europe, we would still expect it to sort of be in that low double-digit range.

Then sort of South America, probably a little bit negative as well given the large underproduction there.

Then Asia Pacific sort of that low single-digit margin range.

But again, I think the key for us is the level of underproduction here this -- in the first quarter is going to be heavily weighted in North America and South America as we look to further drive down the dealer inventories in those regions.

Stephen Volkmann^ Okay. Understood.

Then as a follow-up, I'm trying to get a sense if you could remind me of your total North American sales, how much of that is basically sourced in Europe?

Damon Audia^ Yes. So I think if we look at North American sales last year, Steve, in total, about 35% of that came in from overseas, 25% of the 35% came from the EU.

Operator^ And the next question comes from Tami Zakaria with JPMorgan.

Tami Zakaria^ So my question is on the EME margin.

It was quite impressive on a 17% sales decline and you're seeing low double-digit operating margin in the first quarter.

So given the cost savings there, how should we think about the mid-cycle margin for that region when volumes do inflect in the future?

Damon Audia^ Yes. I think Tami, Europe has done quite well with the market share growth the team has done there, done quite well. Parts has been relatively strong. Generally speaking, we would see EME -- in most of our regions, sort of in that mid-teens at around mid-cycle.

Operator^ And the next question comes from Mig Dobre with Baird.

Mircea Dobre^ Given the way you framed Q1 for us, I'm sort of curious as to how you think about dealer inventory progression?

Do you think this issue, this problem largely gets solved in Q1?

Or is this more of a Q2 factor?

What are some of the benchmarks that you're watching in determining production for Q2?

Damon Audia^ Yes. I think Mig, so if we go down by the -- if we look at the regions as - for Europe, we're in good shape.

We don't anticipate really any significant changes.

I think for South America, we're working to cut production significantly there.

I would say we're probably looking into the second quarter as we adjust production given some of the seasonality of the business there as well as Q1 is generally speaking, a fairly low selling season.

So Q2 is where we'll see more sell-out. North America, I think is the wildcard as we look at we're sitting here with around nine months of inventory despite the lower number of units because of the negative outlook.

So you're sort of looking at two variables there, how does the industry evolve over, let's say the next six months.

So if we start to see farmer sentiment improve, grain prices, if you look at corn futures now I think they're slightly over \$5 for May.

So a couple of positive data points.

If that improves the sentiment, and we start to see the demand pick up, that would be an ability for us to maybe slow down.

But I think in the near term here, it's going to be looking at the days on hand for the dealers, the units to have on hand and taking an aggressive approach to the inventory.

So I think that's the one I would say -- Q2 may be a little bit longer depending on how that second half farmer sentiment looks here in North America.

Mircea Dobre^ Okay. If I may one quick follow-up on pricing. Negative in Q4, but you expect it to get better, slightly positive in '25.

What gives you that confidence?

And again, any commentary by region would be helpful as well.

Damon Audia^ Yes. Sure, Mig.

So again, we're still with the 0% to 1% positive. If we look at it, we're going to be a little bit negative here in the first quarter.

We have some couple of things here. We have some carryover pricing here.

If you've heard me talk about the new Fendt 700, we have the Gen six and the Gen seven out there.

So we have that year-over-year still affecting the European margins.

We're likely going to be slightly negative in South America, not driven by, I would say pricing or discounts, driven more by a tax law change.

In Argentina, where the industry was pricing for the 17.5% tax in Argentina, that stopped in December.

We, and I believe the industry as a whole have reduced that.

So that comes -- shows up as negative pricing for us, but it's really more of a pass-through for some taxes there. North America, we expect to be positive for the quarter and for the full year.

So -- but still looking similar to what we said in December, a little bit more geographic as we waited with our exposure to Europe being slightly negative, driving us down to that 0% to 1% for the full year.

Operator^ And the next question comes from Kristen Owen with Oppenheimer

Kristen Owen^ I wanted to follow up on Tami's question about the margin recovery in Europe, particularly in the fourth quarter and how we think about that flowing through to 2025?

Just specifically, can you give us an update on the reorganization at BayWa?

Anything else that you might call out that's helping to contribute to that recovery?

Damon Audia^ Yes. Sure, Kristen.

So -- as BayWa, as they've stated publicly, as part of their restructuring efforts, have made a lot of progress.

I think the reports from the third parties show that the business is improving.

We continue to have a great partnership with them.

We're working very closely with them. Their ag business has been extremely strong.

Obviously, that's helped the Fendt business. So we continue to be very close with them.

Obviously, as a restructuring initiative they are not eager to take on a lot of the stock units, and that's been part of our challenge here with Fendt and BayWa is we're doing great pass through to the retail to the farmers, but the stock units as they start to preserve cash, I think we won't see that recover at least here in the first part of 2025.

But overall, the market looks good there.

I think what you should expect to see for us in EME, again as you know, macro wise the most stable market. We still see it down.

But the cost actions, we've talked about a lot of those cost actions as we work through conversations with workers' councils.

If you look at the restructuring efforts, we accrued quite a bit in the fourth quarter as we've gained some clarity and confidence on that, we would expect that start to really drop to the bottom line more in the back half of the year as we start to execute on some of those actions here in Europe.

Kristen Owen^ Great.

Then my follow-up is related to the free cash flow outlook for 2025. You mentioned some of the inventory that you want to wind down in the first half of the year.

But against the comments that this may be the trough in 2025, how do you think about the working capital in the back half of the year if there's some anticipation that we could see maybe a little bit of volume recovery next year?

Damon Audia^ Yes.

So again, if I think about our free cash flow, we still feel fairly confident. Again, if I looked at where we delivered just in this 2024, we fell short of our expectations.

But I think it's important to remember because of how we work with AGCO Finance, Eric and I both alluded to that we missed our sales by around \$300 million versus our expectations. Had we made those sales that would have come out of inventory and would have dropped right into cash for us.

So that would have put our conversion rate at just around 100%.

So we still feel good as we look forward into 2025, knowing that there are some finished goods that we have to work through the system here because what we're carrying is more what we would want in the current environment.

So even if the industry picks up, it won't be sort of a one-for-one build as the industry is recovering because of where we finished the year here falling a little bit short of the sales target.

Operator^ And the next question comes from Jamie Cook with Truist.

Jamie Cook^ I guess two questions. Damon, first, a similar question on South America, given we start off the year negative and just the volatility in the margins, how are you thinking about margins for the full year and sort of the cadence?

Then I guess my second question, obviously you guys announced some restructuring actions that you started, I think last summer. Given the weakness in the markets, anything more that we're contemplating.

Then last, finally, just what's the expectations on PTx in your guidance in terms of sales and profits, if any?

Damon Audia^ Yes. Sure, Jamie.

So South America, I think for the full year, we would sort of today expect those margins to be similar to where we finished the full year of 2024 sort of in that mid- to sort of higher single-digit range.

As I mentioned on the prior -- one of the earlier questions will be negative in Q1 and then we start to pick up some profitability in Q2. Q3 is generally their strongest seasonal quarter there.

So we'll see that be the richest or the best profitability and then tamper down a little bit in the fourth quarter, again driven more by seasonality.

But the full year, I'd sort of put it close to where we finished last year.

On the second part, restructuring actions.

So we're on a good pace to deliver the \$100 million to \$125 million of cost savings by the run rate by the end of this year.

At the December Investor Day I did announce that as we were looking at further efficiencies, better opportunities to leverage global Centers of Excellence.

We added another \$75 million of run rate savings. Those will not happen likely until run rate of end of 2026 as we start to migrate things to international locations, leverage a little bit more technology.

So that being said, we're -- as Eric alluded to, we're watching this market very closely. To the extent things get worse or worse than our plans.

Obviously, there's always discretionary spend that we can control.

We're doing the investments as we feel appropriate for the business for the long term.

But at the end of the day we have to make sure we're delivering a certain level of margin and earnings as well.

So we do have some discretionary cost levers that we could layer on if necessary on top of the normal restructuring.

As it relates to PTx as a whole, so again as a reminder for the team here when we talk about PTx, that includes our Precision Planting business, our PTx Trimble business and our Fuse business, when we look at that as a whole, last year's revenues were just, call it, around mid 8s and I would expect that business to be relatively flat in 2025 at a similar type of sales level amongst those three groups combined.

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

Jerry Revich^ Eric, I'm wondering if you can just expand the comments you made in the prepared remarks on the company's philosophy on upfront pricing versus subscription pricing within the context of one of your competitors doing aftermarket guidance kits with heavy aftermarket pricing.

Can you just talk about what feedback you're hearing in the market?

And just your broader philosophy on upfront versus subscription?

Eric Hansotia^ What we aim to be the most farmer-focused company in the industry.

What farmers continually tell us is that they have different appetites in different parts of the cycle.

When they want to purchase something, they'd like to finance it and get it all purchased in the good years.

Then when the lean years come, they'd like to minimize their ongoing costs.

So they're, in general, not too favorable for subscription fees.

Now there are exceptions to that rule, and we have some -- a subscription model as part of our outrun autonomy system.

We've got some subscription aspects to our radical agronomic system.

So there are elements where it makes sense, especially for newer technologies and things like that.

But as it relates to the technology I mentioned, which is targeted spring we feel that the feedback we're getting is that they would rather pay for it one time and then be able to use it on a -- have their fixed costs done and that have an ongoing variable cost because that way they can run over the field.

So part of the problem is right now if you have a variable cost, if you run over the field a second time just to capture a few read spots, it's actually very expensive from a variable cost standpoint and so they don't do that path.

We want to be able to do that path, which is one of the features that is attractive with that system.

So that's how we think about it. Trying to be very farmer-focused and use the subscriptions where it makes sense, especially on newer technologies.

Jerry Revich^ Super. Then in terms of the South America performance in the quarter, I wasn't surprised.

Can you just talk about what the run rate you expect to be in 2Q, 3Q of that business?

I appreciate the -- a little bit of 150 basis points benefit in the fourth quarter, but can you talk about once production cuts are done, what's the margin trajectory that you folks expect to be on this year?

Damon Audia^ Yes. I think Jerry, as I mentioned on the -- maybe in the last question, we expect to be -- given the heavy production cuts in the first quarter, we would be negative operating margin in South America, slightly positive in Q2 as we start to hopefully improve the production levels a little bit there. Q3, we should lap the challenges and we start to see the industry improving.

It's also the strongest -- one of the strongest selling quarters for them.

So we should see the profitability jump up in the third quarter and then tail back on a little bit more because of the timing of the sales here between South America.

Then for the full year, I would say similar to last year's performance, maybe a little bit below just given the pricing in Argentina that I mentioned on one of the prior questions, but sort of that mid- to high single digits.

Operator^ And the next question comes from Kyle Menges with Citi Group.

Kyle Menges^ Just wanted to ask a little bit about just anything that you guys or we should be thinking about with upcoming elections in Germany and just any potential impact either pre or post-election?

Eric Hansotia^ No. I think what you've seen -- there's two different factors.

One is the country elections and then it's the EU parliament.

We saw the EU parliament move to the right.

I think that's the one that is maybe more important for overall EU regulations relative to climate change policies and restrictions on farmers and things like that.

I think it was a bit of a friendly move to farming practices, allowing them to continue to farm the way they want to be farming instead of adding more restrictions.

As it relates to a country-specific, maybe that's more leaning toward an impact on how well there will be cohesion between those countries and the U.S. administration.

But regardless of who's elected, I don't see a big difference there.

So we don't see much impact yet in our scenario planning on country-specific elections.

Kyle Menges^ That's helpful.

Then I just wanted to touch on the Trimble topline synergies you're thinking about in 2025.

I think if I recall correctly, I think you guys have talked about 450 or so Premier Precision planting dealers in North America, but only 50 or so selling Trimble.

So just could you help us frame the opportunity there?

And do you anticipate getting the 400 -- basically adding sort of self-Trimble?

And how many do you think could be added this year?

Like how fast do you think that can happen?

And what do you think of their overall willingness and ability to start carrying Trimble as well?

Eric Hansotia^ Yes. There's been a lot of progress in the fourth quarter, especially on two fronts.

One is signing up AGCO dealers to take on the Trimble aftermarket technology and then also to establish the understanding in the market about where we're going with what we call full line tech dealers.

These are dealers that previously could have been a precision planting dealer or could have been a Trimble dealer and we want them to carry both portfolios going forward so that they've got the full breadth of all technology.

If you add them all up today we've got over 1,000 dealers in the marketplace and over 95% of the acres covered with dealers that cover our technology, PTx technology.

Now what we don't have fully penetrated yet is the full cross-selling. That's going to be the primary focus in 2025, as well as continuing to build out our AGCO dealer portfolio.

We've got a little over 100 dealers in the AGCO lineup signed up today.

We'll be between 200 and 300 by the end of this year, which is where we want to be.

We've got the CNH dealer sign-ups about where we want it to be.

So our main focus is cross-selling of the full-line dealers and filling out the rest of our AGCO dealers.

We think both of those will make big progress in '25.

Operator^ And the next question comes from Angel Castillo with Morgan Stanley.

Angel Castillo^ I just wanted to go back on the PTx.

I think there was a discussion around the sales maybe expectation this year.

But just curious if you could kind of overlay the expectations on operating income for 2025?

And maybe just expand on the impairment charge.

It sounds like some of the adoption rates on penetration or position that you're seeing is still good.

So just to what extent are you seeing any kind of deterioration around that relative to PTx in particular?

Eric Hansotia^ Yes. I'll talk about the strategy elements and I will have Damon talked about the margin projection.

If you took a look at all the activities we wanted to do in 2024 and that we're aiming for in 2025, we got them done or more so.

We launched the PTx brand.

It's well understood in the marketplace. And everybody understands that's the collection of all of these assets that we've gotten is now the strongest mixed fleet Precision Ag business in the world.

We retained our key talent within the business. We retained all our OEM partners in the business. We built up a strong channel I just talked about.

We got over 1,000 dealers and over 95% of the acre is covered. We got to fill that in and make it penetrate better, but we've got a great foundation.

We're building the innovation factor where we launched OutRun technology on the automation kit. The data platform team is running at full speed. That's one of the outputs that we wanted out of this deal and we'll have our first launch coming soon.

We converted the technology guidance systems on our AGCO machines.

It used to be about a 20% take rate of Trimble. It's up over 70% now and we think it will be over 85% in '25.

So the activities we're aiming for are done, it's just that the market was so depressed that the market demand was down in addition to the last time buy for CNH continued to run longer than we had expected because it lasted longer in a weaker market.

We also implemented significant cost synergies in 2024, and we're going to continue that in 2025.

We haven't gotten revenue synergies just because there's not much revenue in this market.

But we still are aiming for that, and we still are committed to delivering it as the market recovers.

So with that, I'll have Damon maybe give a little more color on margin expectations.

Damon Audia^ Yes. I think Angel, for PTx Trimble, we do expect the margins to improve in 2025 versus 2024, as you've heard us talk about the integration, the CNH last time buy, it definitely was a challenging year in 2024.

But as we start to see some of that work through the system here.

We do see sales up in that part of -- in that business next year, and we see the margin improving year-over-year.

As it relates to the impairment, as I said in my comments, we follow a traditional discounted cash flow analysis that's heavily weighted on the near term as you would expect.

And just given the industry drop in 2024 and the industry projections for 2025, it put a lot of pressure on the sales and earnings that we had expected relative to the deal model that we had built when we formulated the goodwill. And as a result of that, we had to take the charge here at the end of the fourth quarter.

But as Eric said and I said, doesn't change the long-term plan, it doesn't change the technology, the adoption rates, the excitement we're seeing from farmers and from our dealers.

It's more of just that DCF and the timing of what we had to recognize when the cycle hit this year or last year versus it hitting two or three years from now.

Angel Castillo^ That's very helpful.

Then maybe I just wanted to go back to the comment, I think on free cash flow. Just the confidence to be able to kind of reach that 75% to 100% conversion.

Can you just unpack that a little bit more?

I think, again, you made some comments around that in -- earlier, but I just want to understand, given the kind of 50% conversion in the last couple of years.

And I think we've heard from other peers maybe timing around pool fund cash payout, just anything that might be impacting or might be a risk?

Then just how you think about that confidence on that 75% to 100%?

Damon Audia^ Yes. Again today, we feel – again, if we would have delivered the sales that we were expecting in the fourth quarter, we would have been around 100% conversion in 2024. Falling short on those sales affected the conversion this last year, left me or left us with excess inventory at the end of 2024.

So when I think about 2025, we would expect to normalize that finished goods inventory sitting in AGCO's balance sheet, getting that into the channel to the dealers and ultimately to the farmers.

So we still feel good about the conversion rate.

I think the one question mark we would have is if the industry starts to recover, and one of the other analysts had asked that question, if we start to see a rapid acceleration of the industry moving into 2026, how much will we have to start building in anticipation.

So would we be adding incremental inventory into the system in anticipation of a strong 2026.

I would tell you that's a good problem to have if we feel that the industry is recovering right now based on our outlook, we don't see that level of extreme outlook for 2016, but I think that would be the one thing we'll watch as we move through the year is that farmer sentiment and how do we plan the production schedule for the back half of the year.

Operator^ And the next question comes from Mike Feniger with Bank of America.

Michael Feniger^ Can just help us understand with North America?

I know you touched on this earlier, if there are tariffs with Europe, does it change any of your thought process or strategy when we think of Massey?

And any big shifts there that allow you to be kind of flexible or how to think about that with North America, if we do start seeing more of this tariff conversation pick back up?

Eric Hansotia^ Yes. Our supply chain team has looked at several different scenarios of what we might do.

I think a lot of this depends on what are the rules of the game going forward, what constitutes a tariff what would be required to be local production?

And how long do we think it will be in place?

Any kind of major footprint change usually takes a multiyear payback.

And so until we get some clarity on stability and what are the exact rules and details, we don't expect to be making supply chain shifts.

But we've got plans on the shelf ready to go if some of those materialize.

But right now we don't have anything in action mode.

Damon Audia^ And I think Mike, just to add on to give a little bit more color, the team has got an array of scenarios. Again as I mentioned, the Canadian -- U.S. to Canadian tariffs would be -- would have some effect on us.

So do we shift the landing of some -- put certain products into Canada versus the U.S.

We're looking at things, do we do some minor kitting here in the U.S. without large-scale investments that may help us ease the short-term pain.

So as Eric said, there are an array of scenarios being running -- run this company, but we want to make sure we have some clarity before we actually execute any of those things.

Michael Feniger^ Fair enough. And just lastly, guys, I realize the production cuts are really helping trying to make that progress on the inventory side. You mentioned North America, I think it was nine months versus a target of six.

I'm curious how we think about the used side, if you're seeing progress there?

And how you kind of help facilitate on the used side as I know you guys are making progress on the new side of the inventory?

Eric Hansotia^ Yes. We don't have as much of a used problem as some of our competitors do.

We continue to use pool funds and things like that and other financing tools.

But right now used equipment values are holding up and used equipment volumes are similar now back to pre-Covid levels but not at a concerning level for us yet.

So we're managing -- using the regular tools in a partnership with AGCO Finance.

Operator^ And this concludes our question-and-answer session.

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

Eric Hansotia^ Yes. I'd just like to say thank you for joining us today and the great questions on the call. AGCO has gone through a substantial transformation over these past years, particularly in 2024.

It was a big year of change, where we supercharged our Precision Ag portfolio with the PTx brand.

Our team was instrumental in delivering the 8.9% adjusted operating margin result for 2024. That's a high watermark for us at this stage of the cycle and it's 300 basis points better than the last cycle, as Damon talked about.

I want to thank each of them for their contributions.

It was a big year of lots of hard work, all focused on the farmer. To all of our shareholders, we appreciate your support and looking forward to building value through our transformation program and executing on our Farmer-First strategy.

Have a great day and thanks for your participation.

Operator^ Thank you for joining the AGCO fourth quarter 2024 earnings call.

The conference call has now concluded.

Have a nice day.