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BJORKLUND FUND

March 16, 2018

Agco Corporation: (AGCO)

Jacob Perry

Sector: Consumer Discretionary
Industry: Agricultural Machinery
Current Price: $67.46
Target Price: $41.31

Company Description:

AGCO Corporation manufactures and distributes agricultural equipment and related replacement parts worldwide. The company offers high horsepower tractors for larger farms, primarily for row crop production; utility tractors for small- and medium-sized farms, as well as for dairy, livestock, orchards, and vineyards; and compact tractors for small farms, specialty agricultural industries, landscaping, and residential uses. It markets its products under the Challenger, Fendt, GSI, Massey Ferguson, and Valtra brands through a network of independent dealers and distributors. AGCO Corporation was founded in 1990 and is headquartered in Duluth, Georgia.

SELL

Current Price: $67.46
Target Price: $41.31
52 Week Range: $75.90-$58.00
EBITA Margin: 8.4%
Net Margin: 2.9%

Market Cap: 5.37B
Volume: 0.60mm
ROIC: 4.33%
WACC: 10.01%
Alpha: 37.87%

AGCO
Your Agriculture Company

Thesis: Agco Corp has been stagnate in creating growth in the company and neglecting opportunities to invest for the future. In the near term, Agco corp will experience a drop in market price due to a handful of macroeconomic reasons as well as a misguided approach to capital management.

Catalysts:

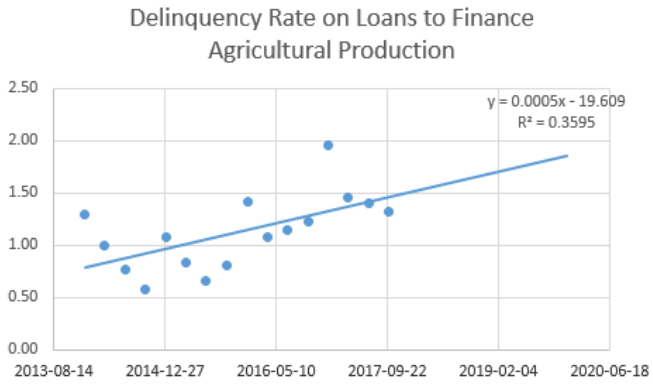
- Short Term(within the year): Tariff plans, immigration policy reform, farmers in higher risk industry
- Mid Term(1-2 years): Not relevant
- Long Term(3+): Not relevant

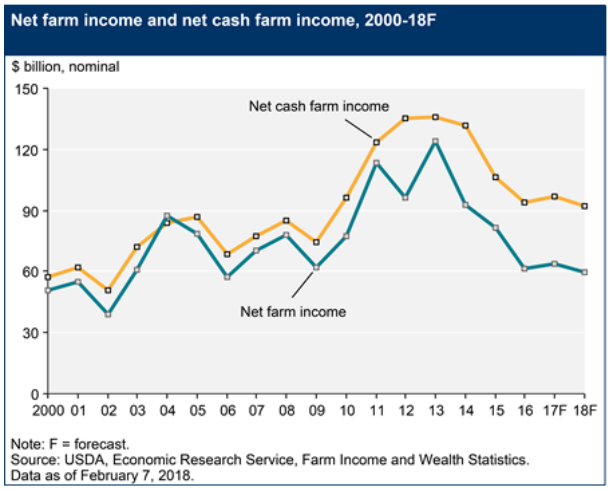
Conclusion/Summary:

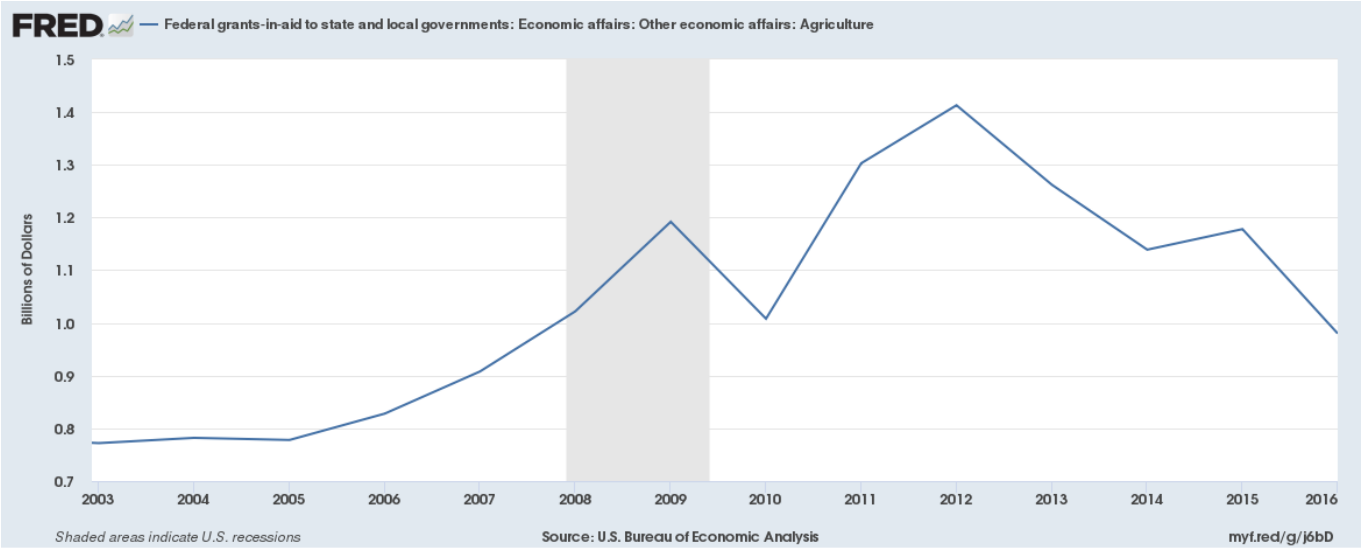
The culmination of tariffs on necessary imported metals, negative macroeconomic effects on farmers, and lack of targeted usage of capital are leading Agco Corp to an inevitable decrease in value. With a calculated zero percent chance of creating value in terms of price per share, a short sale for a limited duration could provide exceptional returns. A current share price of $67.46 should decline to the mid $40 mark with an overall target price of $41.31. With a short sell position, a realized gain of 37.87% can be obtained over the holding period.

Farmer's Across the World Are Bleeding:

Globally, farmers are seeing the margins of yesteryear disappear today as costs to produce their goods increase consistently. In the United States, farmers face challenges on many fronts. The most obvious catalyst to a farmer's success is the weather that takes place during the growing season. I am not convinced that this is pertinent to Agco at the moment. What is more important are the factors that affect farmer's behavior in respect to Agco's operations. Meaning, farmers inhabit factors that sway their ability to take on new machinery. Delinquency rates on loans to finance agricultural production have raised from 0.05% to 2.00% from 2014 Q3 to 2017 Q1. Delinquency rates are seasonal and have historical periodical increases and decreases. The next quarter marks the seasonal trend of large increases in delinquency rates among agricultural businesses. In addition to delinquency rates, farmers are experiencing a decrease in net farming income over the past five years with the exception of 2016. Farmers have seen a loss of over 40 billion dollars of revenue in that period. It is consistent over time that agricultural businesses see a variation of revenues and incomes due specifically to natural factors, but there is something to be said about a trend of decreasing incomes over a lengthened period of time. Most farm owners rely on multiple forms of income to help subsidize costs and provide profit margins. In terms of buying new machinery, many farmers are dependent on government grants that are used specifically





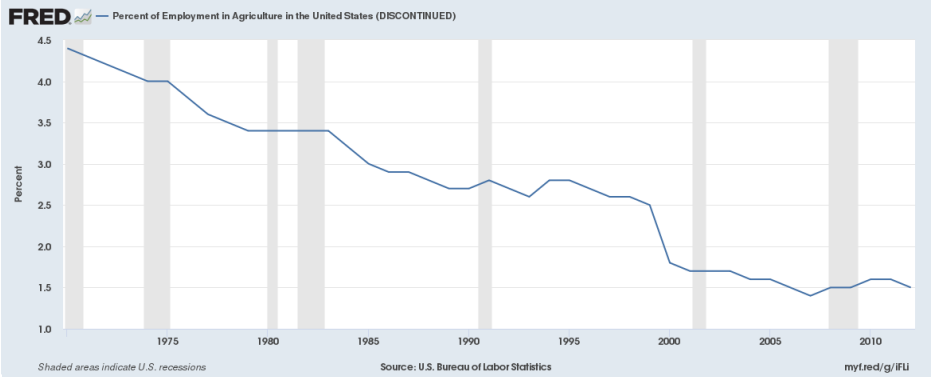


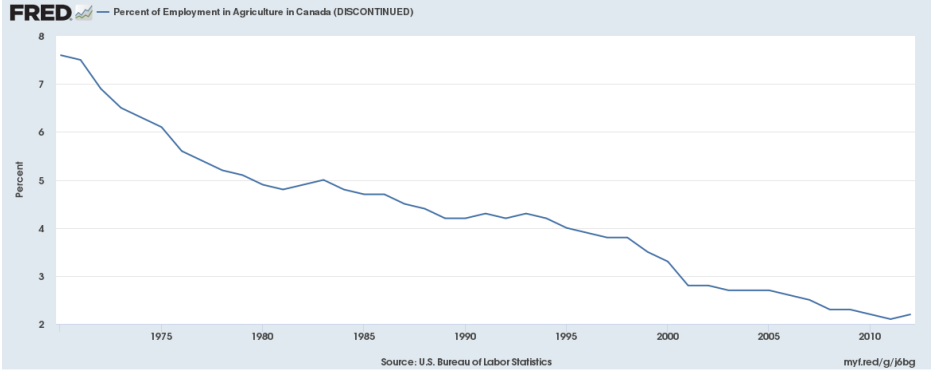
for the purchase of brand new machinery. Over the past six years, there has been a decrease in government grants to agricultural sector of over 44%. As government grants to farmers decrease, the ability to purchase new machinery drops dramatically. As demand for new machinery by farmers decreases, Agco has more risk of losing potential revenue. Farmers that still need to buy machinery regardless will most likely resort to purchasing pre-owned/used equipment with will also not help Agco. It has been observed that tractor sales in the North America has decreased by 8% over the last three quarters. In Western Europe, combine sales have declined over 30% in the last three quarters and tractor sales have declined 2% during the same period.

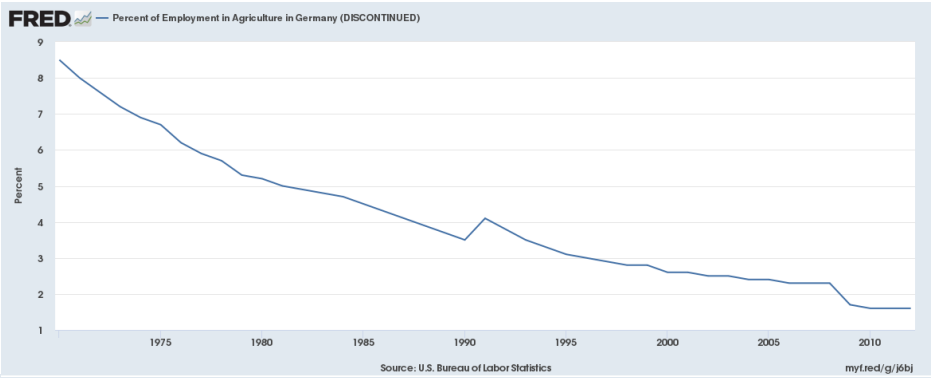
Government:

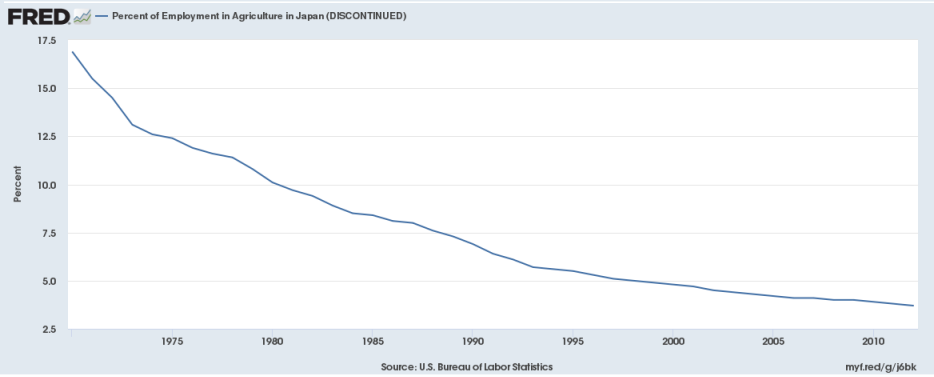
The United States government has two very influential and potential impacts in the agricultural sector ready to go to the floor. The most recent mentioning's out of the White House regarding tariffs on metals form foreign nations could aggressively eat away at Agco's profit margins in North America. As it is now, many farmers cannot independently purchase a new piece of machinery at the current price. If materials related to the production of the machinery increase in price, Agco might have to raise its prices to subsidize for the loss in increased costs. The more important government factor to be concerned with regards immigration. President Donald Trump has publicly shown his position on immigration to be a firm believer on division of nations at the borders between them. Illegal immigration in the United States will become an important topic, once again, in the near future as the tariff talks resolve. Immigration reform could crumble the agricultural economy in the United States to its dependency of immigrant labor on farms. Over 52% of employed workers in the agriculture sector are expected to be illegal immigrants descending from Latin America and South America. An increased focus on the immigration of migrants from these countries could dramatically slow or damage the growth of the industry. Collectively, tariffs and immigration reform could dramatically hurt Agco's key consumers which would be a step back in the sales usually obtained in North America, one of their largest market segments.

Employment in Agriculture:









Agricultural businesses have suffered from a global decrease in willingness among prime age workers to work in agricultural industries. In the United States, there have been only four of 40 plus years in which the percentage of employment in agriculture has increased. Since the early 1960s, the United States has left the agricultural industry in America to be left to immigrant workers. The same can been seen globally across all of Agco's targeted market segments. Remaining in North America, Canada has decreased sharper than the United States over the same period of time. In Europe, Germany saw a steeper decrease in percent employed in agriculture than Canada and the United States. The worst decrease in agriculture employment was in the Asian market segment. Japan dropped from having roughly 17% employed in agriculture to around 3.5% in the 2010s. As global markets continue to get choked by their populations, agricultural businesses have to rely more on immigrant labor. As stated earlier, there are concerns on some markets having a decrease in immigrant labor as well. The same principle applies as before in which when farmers can no longer obtain help, they will have to decrease portions of their business which will lead to a decrease in investment from consumers in new machinery.

Misguided Capital Management:

Agco Corp has been sinking money into questionable investments and proposing them to investors as prime opportunities to gain value. However, an expenditure of over 4 billion dollars to buy back company shares seems more like market manipulation than anything else given their opportunity to invest in the markets they rely on. Other agricultural based business have invested money into some of their major consumers to provoke an increase in growth prospects for those companies and the companies associated with the consumers. The trickle down investment will boost the economy and Agco would receive increased portions market segments due to higher customer relations. Meaning, as Agco invests in their consumers, their consumers will invest back into Agco. The repurchase of $4 billion worth of stock also acts as a way for management to cover up lost opportunities in value creation in the company. By buying back shares in the company, Agco can do a few things. First, Agco will retain greater control of the board, which currently houses the CEO of Agco. Second, Agco will be able to manipulate dividend growth rates by reducing the number of shares while maintaining the same level of payout. The more shares that are purchased back from the company, the more dividends per share that an owner would receive. Lastly, Agco can use signaling theory to influence investors to think that the stock is currently underpriced and should be considered a growth opportunity. This of course would only work for a very short time until it was shown the market price was boosted unnaturally and then a selloff of shares would follow leading to a large decrease in price.

Management:

Agco Corporation upper management should be investigated thoroughly to interpret where their intentions lie in the near future, personally. CEO, Martin Richenhagen, has liquidated every stock option granted to him in the last year. Ether the stock is overpriced or Martin is headed towards retirement, after all he is 67 years old. The way Richenhagen is conducting himself as a leader of Agco is concerning. Misguided investments, lack of knowledge during the earnings calls, and bullish behavior towards stock otions leads me to believe that Richenhagen will most likely be leaving the company within the next two years.

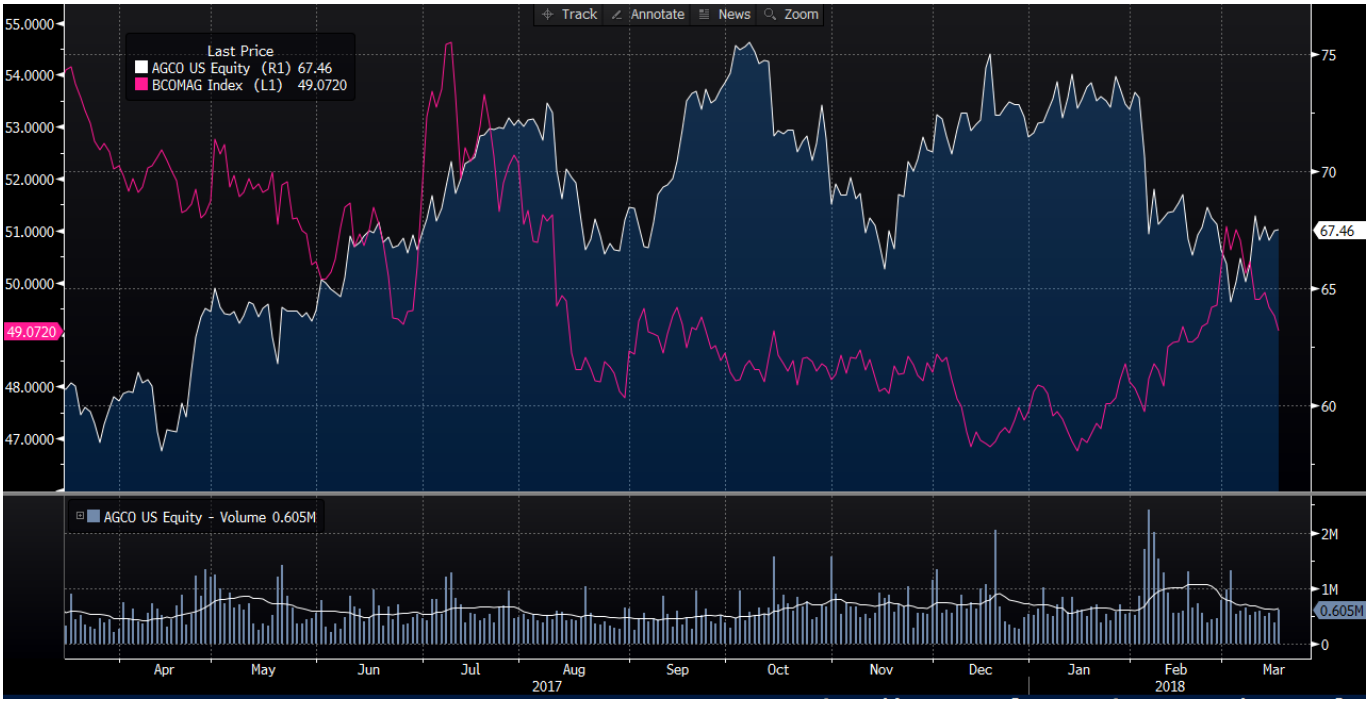
Other notes:

- Sales estimates for 2018 by AGCO are shown to be flat in both the North America and Western Europe region
- Indexes point to pullback in price of AGCO due to macro factors. BCOMAG index (Bloomberg Agriculture Subindex) highly correlated. AGCO is above projected values based on historical trend line
- Swelling inventory with the probability of lower sales in two biggest regions, North America and Western Europe
- Accounts Receivable are the highest they have ever been, concerning since farmers are having the hardest time of business owners in paying off debt
- New tech in equipment can make farmers more efficient, if and only if they can adapt the technology which is very costly and requires immense training to utilize properly. Programming and software tech knowledge will become crucial to have in operators, skills usually found only in advanced degree obtaining individuals.

- New hiring costs will eat farmer's profit margins which are already slim.
- Immigrants working in agriculture now tend to not have the knowledge of the new equipment controls and programming.

Conclusion:

The culmination of tariffs on necessary imported metals, negative macroeconomic effects on farmers, and lack of targeted usage of capital are leading Agco Corp to an inevitable decrease in value. With a calculated zero percent chance of creating value in terms of price per share, a short sale for a limited duration could provide exceptional returns. A current share price of $67.46 should decline to the mid $40 mark with an overall target price of $41.31. With a short sell position, a realized gain of 37.87% can be obtained over the holding period.



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CENTER FOR GLOBAL FINANCIAL STUDIES

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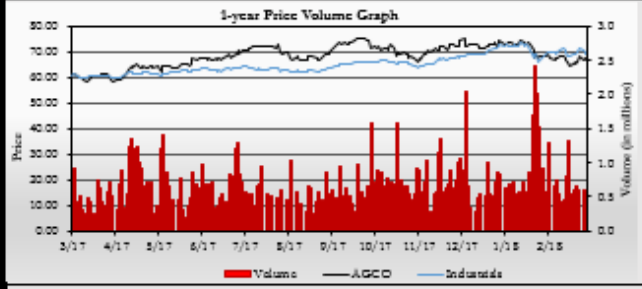
Analysis by Jacob Perry	Current Price:	$67.46	Intrinsic Value	$35.95	Target 1 year Return: -37.87%
3/16/2018	Divident Yield:	0.9%	Target Price	$41.31	Probability of Price Increase: 0%



Description

AGCO Corporation manufacturer and dirtributer agricultural equipment and related replacement partr uarlduide.

General Information

Sector	Indurtrialr
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Lart Guidance	February 12, 2018
Next earningr date	April 27, 2018

Market Arrumptinnr

Ertimated Equity Rirk Premium	6.01%
Effective Tax rate	28%

Market Data

Market Capitalization	$5,370.82
Daily volume (mil)	0.60
Sharer outrtanding (mil)	79.61
Diluted sharer outrtanding (mil)	80.20
%sharer held by institutionr	109%
%sharer held by invertmentr Managerr	73%
%sharer held by hedge fundr	4%
%sharer held by inridorr	1.60%
Short interert	4.21%
Days to covershort interert	4.54
52 week high	$75.95
52-week low	$58.00
Volatility	24.44%

Part Earning Surprirer

Quarter ending	Revenue	EBITDA
12/31/2016	8.56%	7.61%
3/31/2017	4.60%	12.94%
6/30/2017	4.81%	13.79%
9/30/2017	3.82%	12.80%
12/31/2017	5.70%	1.95%
Mean	5.50%	9.82%
Standard error	1.0%	5.3%

Market and Credit Scurer

Recommendation (STARS) Value--3
Recommendation (STARS) Description--Hold
Quality Ranking Value--B
Quality Ranking Description--Below Average
Short Score--1
Market Signal Probability of Default % (Non-Ratingr)--0.729%
CreditModel Score (Non-Ratingr)--bbb

Industry and Segment Information

LTM Revenuer by Geographic Segme	LTM Revenuer by Burinerr Segmentr
United Statar--19%	North America--23%
Canada--4%	South America--13%
Germany--13%	Europe/Middle Eart--56%
France--11%	Aria/Pacific/Africa--9%
United Kingdom and Ireland--7%	--

Peerr

Deere & Company	Caterpillar Inc.
CNH Indurtrial N.V.	Lindray Corporation
The Tarn Company	--
Cumminr Inc.	--
Kubata Corparation	--

Management	Purition	Total Compenrationr Growth	Stock Price Growth During Tenure
Richenhagen, Martin	Chairman, Preridant & CEO	10.48% per annum over 5y	3.49% per annum over 5y
Beck, Andrew	Senior VP & CFO	4.15% per annum over 5y	3.49% per annum over 5y
Collar, Gary	Senior VP and GM of Aria Pacific & Africa	7.19% per annum over 5y	3.49% per annum over 5y
Voltmaat, Hanr-Bernd	Senior VP & Chief Supply Chain Officer	15.78% per annum over 5y	3.49% per annum over 5y
Smith, Richard	Senior VP and GM of Europe & Middle East	6.38% per annum over 3y	-4.14% per annum over 3y
Peterran, Greg	Director of Invertor Relationr		

Profitability	AGCO (LTM)	AGCO Hirtorical	Peerr' Median (LTM)
Return on Capital (GAAP)	4.5%	4.96%	7.79%
Operating Margin	4%	3.98%	10.56%
Revenue/Capital (GAAP)	1.14	1.24	0.74
ROE (GAAP)	6.0%	7.9%	13.0%
Net margin	2.7%	3.0%	5.4%
Revenue/Book Value (GAAP)	2.27	2.61	2.39
Inverted Fundr	**AGCO (LTM)**	**AGCO Hirtorical**	**Peerr' Median (LTM)**
Cash/Capital	6.3%	11.3%	15.7%
NWC/Capital	10.9%	8.3%	23.9%
Operating Arrotr/Capital	56.3%	58.6%	51.1%
Goodwill/Capital	26.5%	21.8%	9.3%
Capital Structure	**AGCO (LTM)**	**AGCO Hirtorical**	**Peerr' Median (LTM)**
Total Debt/Market Capitalization	0.35	0.30	0.49
Cart of Debt	3.2%	5.6%	4.6%
CGFS Rating (F-rcare, Z-rcare, and default Prabability	B		
WACC	7.3%	9.9%	8.9%

Porter's 5 Forcer (Scurer are percentilar)

Valuation

Forecart Arrumptinnr	Explicit Period (1 yearr)	Continuing Period
Revenue Growth CAGR	3%	2%
Average Operating Margin	6%	6%
Average Net Margin	3%	3%
Growth in Capital CAGR	3%	2%
Growth in Claimr CAGR	0%	2%
Average Return on Capital	4%	4%
Average Return on Equity	4%	4%
Average Cart of Capital	8%	8%
Average Cart of EquityKe	9%	9%