

AGCO CORP /DE  
Form 10-Q  
November 08, 2018

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33767

AGCO CORPORATION

(Exact name of Registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

4205 River Green Parkway

Duluth, Georgia

(Address of principal executive offices)

(770) 813-9200

58-1960019

(I.R.S. Employer Identification No.)

30096

(Zip Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company     Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 5, 2018, there are 78,284,171 shares of the registrant's common stock, par value of \$0.01 per share, outstanding.



AGCO CORPORATION AND SUBSIDIARIES  
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (unaudited and in millions, except share amounts)

|  | September 30,<br>2018 | December 31,<br>2017 |
|--|-----------------------|----------------------|
| <b>ASSETS</b>  |                       |                      |
| Current Assets:  |                       |                      |
| Cash and cash equivalents  | \$ 292.7              | \$ 367.7             |
| Accounts and notes receivable, net   | 992.7                 | 1,019.4              |
| Inventories, net   | 2,101.8               | 1,872.9              |
| Other current assets   | 401.8                 | 367.7                |
| Total current assets   | 3,789.0               | 3,627.7              |
| Property, plant and equipment, net   | 1,367.8               | 1,485.3              |
| Investment in affiliates   | 419.2                 | 409.0                |
| Deferred tax assets  | 108.7                 | 112.2                |
| Other assets   | 147.2                 | 147.1                |
| Intangible assets, net   | 590.8                 | 649.0                |
| Goodwill   | 1,494.4               | 1,541.4              |
| Total assets   | \$ 7,917.1            | \$ 7,971.7           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                       |                      |
| Current Liabilities:   |                       |                      |
| Current portion of long-term debt  | \$ 5.5                | \$ 24.8              |
| Short-term borrowings  | 181.3                 | 90.8                 |
| Accounts payable   | 855.3                 | 917.5                |
| Accrued expenses   | 1,425.5               | 1,407.9              |
| Other current liabilities  | 191.5                 | 209.6                |
| Total current liabilities  | 2,659.1               | 2,650.6              |
| Long-term debt, less current portion and debt issuance costs   | 1,699.3               | 1,618.1              |
| Pensions and postretirement health care benefits   | 223.7                 | 247.3                |
| Deferred tax liabilities   | 121.0                 | 130.5                |
| Other noncurrent liabilities   | 245.1                 | 229.9                |
| Total liabilities  | 4,948.2               | 4,876.4              |
| Commitments and contingencies (Note 16)  |                       |                      |
| Stockholders' Equity:  |                       |                      |
| AGCO Corporation stockholders' equity:   |                       |                      |
| Preferred stock; \$0.01 par value, 1,000,000 shares authorized, no shares issued or outstanding in 2018 and 2017   | —                     | —                    |
| Common stock; \$0.01 par value, 150,000,000 shares authorized, 78,481,817 and 79,553,825 shares issued and outstanding at September 30, 2018 and December 31, 2017, 0.8 respectively |                       | 0.8                  |
| Additional paid-in capital   | 81.8                  | 136.6                |
| Retained earnings  | 4,405.4               | 4,253.8              |
| Accumulated other comprehensive loss   | (1,581.9              | ) (1,361.6 )         |
| Total AGCO Corporation stockholders' equity  | 2,906.1               | 3,029.6              |

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|  |            |            |
|--|------------|------------|
| Noncontrolling interests                   | 62.8       | 65.7       |
| Total stockholders' equity                 | 2,968.9    | 3,095.3    |
| Total liabilities and stockholders' equity | \$ 7,917.1 | \$ 7,971.7 |

See accompanying notes to condensed consolidated financial statements.

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AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited and in millions, except per share data)

|  | Three Months Ended September 30, |            |
|--|----------------------------------|------------|
|  | 2018                             | 2017       |
| Net sales  | \$ 2,214.7                       | \$ 1,986.3 |
| Cost of goods sold   | 1,741.0                          | 1,557.7    |
| Gross profit   | 473.7                            | 428.6      |
| Selling, general and administrative expenses                                   | 260.5                            | 233.2      |
| Engineering expenses   | 83.3                             | 80.1       |
| Restructuring expenses   | 1.5                              | 3.0        |
| Amortization of intangibles  | 15.3                             | 14.3       |
| Bad debt expense   | 1.8                              | 0.9        |
| Income from operations   | 111.3                            | 97.1       |
| Interest expense, net  | 7.0                              | 11.6       |
| Other expense, net   | 19.1                             | 18.5       |
| Income before income taxes and equity in net earnings of affiliates            | 85.2                             | 67.0       |
| Income tax provision   | 23.9                             | 16.9       |
| Income before equity in net earnings of affiliates                             | 61.3                             | 50.1       |
| Equity in net earnings of affiliates   | 9.4                              | 10.7       |
| Net income   | 70.7                             | 60.8       |
| Net loss (income) attributable to noncontrolling interests                     | 0.4                              | (0.1 )     |
| Net income attributable to AGCO Corporation and subsidiaries                   | \$ 71.1                          | \$ 60.7    |
| Net income per common share attributable to AGCO Corporation and subsidiaries: |                                  |            |
| Basic  | \$ 0.90                          | \$ 0.76    |
| Diluted  | \$ 0.89                          | \$ 0.76    |
| Cash dividends declared and paid per common share                              | \$ 0.15                          | \$ 0.14    |
| Weighted average number of common and common equivalent shares outstanding:    |                                  |            |

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|         |      |      |
|---------|------|------|
| Basic   | 78.7 | 79.5 |
| Diluted | 79.7 | 80.2 |

See accompanying notes to condensed consolidated financial statements.

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AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
 (unaudited and in millions, except per share data)

|  | Nine Months Ended September 30, |            |
|--|---------------------------------|------------|
|  | 2018                            | 2017       |
| Net sales  | \$ 6,759.8                      | \$ 5,779.1 |
| Cost of goods sold   | 5,301.8                         | 4,544.8    |
| Gross profit   | 1,458.0                         | 1,234.3    |
| Selling, general and administrative expenses                                   | 796.9                           | 690.5      |
| Engineering expenses   | 267.2                           | 230.0      |
| Restructuring expenses   | 10.1                            | 8.5        |
| Amortization of intangibles  | 49.2                            | 41.5       |
| Bad debt expense   | 4.7                             | 2.7        |
| Income from operations   | 329.9                           | 261.1      |
| Interest expense, net  | 38.5                            | 33.6       |
| Other expense, net   | 57.8                            | 49.2       |
| Income before income taxes and equity in net earnings of affiliates            | 233.6                           | 178.3      |
| Income tax provision   | 73.8                            | 64.9       |
| Income before equity in net earnings of affiliates                             | 159.8                           | 113.4      |
| Equity in net earnings of affiliates   | 26.3                            | 30.8       |
| Net income   | 186.1                           | 144.2      |
| Net loss (income) attributable to noncontrolling interests                     | 0.7                             | (2.1 )     |
| Net income attributable to AGCO Corporation and subsidiaries                   | \$ 186.8                        | \$ 142.1   |
| Net income per common share attributable to AGCO Corporation and subsidiaries: |                                 |            |
| Basic  | \$ 2.36                         | \$ 1.79    |
| Diluted  | \$ 2.33                         | \$ 1.77    |
| Cash dividends declared and paid per common share                              | \$ 0.45                         | \$ 0.42    |
| Weighted average number of common and common equivalent shares outstanding:    |                                 |            |



|         |      |      |
|---------|------|------|
| Basic   | 79.2 | 79.5 |
| Diluted | 80.1 | 80.1 |

See accompanying notes to condensed consolidated financial statements.

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AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (unaudited and in millions)

|   | Three Months<br>Ended<br>September 30,<br>2018 2017 |         |
|---|---|---------|
| Net income  | \$70.7  | \$60.8  |
| Other comprehensive (loss) income, net of reclassification adjustments:       |   |         |
| Foreign currency translation adjustments                                      | (53.1 )   | 64.5    |
| Defined benefit pension plans, net of tax                                     | 2.9   | 3.1     |
| Unrealized gain (loss) on derivatives, net of tax                             | 0.9   | (1.8 )  |
| Other comprehensive (loss) income, net of reclassification adjustments        | (49.3 )   | 65.8    |
| Comprehensive income  | 21.4  | 126.6   |
| Comprehensive loss (income) attributable to noncontrolling interests          | 1.3   | (0.6 )  |
| Comprehensive income attributable to AGCO Corporation and subsidiaries        | \$22.7  | \$126.0 |
|   | Nine Months<br>Ended<br>September 30,<br>2018 2017  |         |
| Net income  | \$186.1   | \$144.2 |
| Other comprehensive (loss) income, net of reclassification adjustments:       |   |         |
| Foreign currency translation adjustments                                      | (233.8 )  | 106.5   |
| Defined benefit pension plans, net of tax                                     | 9.0   | 8.9     |
| Unrealized gain on derivatives, net of tax                                    | 1.5   | 4.3     |
| Other comprehensive (loss) income, net of reclassification adjustments        | (223.3 )  | 119.7   |
| Comprehensive (loss) income   | (37.2 )   | 263.9   |
| Comprehensive loss (income) attributable to noncontrolling interests          | 3.7   | (3.2 )  |
| Comprehensive (loss) income attributable to AGCO Corporation and subsidiaries | \$(33.5 )   | \$260.7 |

See accompanying notes to condensed consolidated financial statements.

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AGCO CORPORATION AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
 (unaudited and in millions)

|  | Nine Months<br>Ended September<br>30, |            |
|--|---------------------------------------|------------|
|  | 2018                                  | 2017       |
| Cash flows from operating activities:  |                                       |            |
| Net income   | \$ 186.1                              | \$ 144.2   |
| Adjustments to reconcile net income to net cash used in operating activities:            |                                       |            |
| Depreciation   | 170.1                                 | 165.2      |
| Amortization of intangibles  | 49.2                                  | 41.5       |
| Stock compensation expense   | 33.0                                  | 31.3       |
| Equity in net earnings of affiliates, net of cash received                               | (21.8 )                               | (15.4 )    |
| Deferred income tax (benefit) provision  | (17.7 )                               | 0.7        |
| Loss on extinguishment of debt   | 15.7                                  | —          |
| Other  | (2.2 )                                | 2.3        |
| Changes in operating assets and liabilities, net of effects from purchase of businesses: |                                       |            |
| Accounts and notes receivable, net   | (59.8 )                               | (81.2 )    |
| Inventories, net   | (398.0 )                              | (424.9 )   |
| Other current and noncurrent assets  | (67.3 )                               | (92.4 )    |
| Accounts payable   | (18.4 )                               | 100.0      |
| Accrued expenses   | 55.9                                  | 67.9       |
| Other current and noncurrent liabilities   | 71.2                                  | 31.6       |
| Total adjustments  | (190.1 )                              | (173.4 )   |
| Net cash used in operating activities  | (4.0 )                                | (29.2 )    |
| Cash flows from investing activities:  |                                       |            |
| Purchases of property, plant and equipment   | (138.5 )                              | (139.4 )   |
| Proceeds from sale of property, plant and equipment                                      | 2.6                                   | 3.3        |
| Investments in unconsolidated affiliates   | (5.8 )                                | (0.8 )     |
| Purchase of businesses, net of cash acquired   | —                                     | (188.4 )   |
| Other  | 0.4                                   | —          |
| Net cash used in investing activities  | (141.3 )                              | (325.3 )   |
| Cash flows from financing activities:  |                                       |            |
| Proceeds from indebtedness   | 3,262.5                               | 2,752.9    |
| Repayments of indebtedness   | (3,046.1 )                            | (2,502.5 ) |
| Purchases and retirement of common stock   | (84.3 )                               | —          |
| Payment of dividends to stockholders   | (35.6 )                               | (33.4 )    |
| Payment of minimum tax withholdings on stock compensation                                | (3.7 )                                | (6.7 )     |
| Payment of debt issuance costs   | (1.6 )                                | —          |
| Investment by or distribution to noncontrolling interests, net                           | 0.8                                   | 0.5        |
| Net cash provided by financing activities  | 92.0                                  | 210.8      |
| Effects of exchange rate changes on cash and cash equivalents                            | (21.7 )                               | 26.7       |
| Decrease in cash and cash equivalents  | (75.0 )                               | (117.0 )   |
| Cash and cash equivalents, beginning of period   | 367.7                                 | 429.7      |
| Cash and cash equivalents, end of period   | \$ 292.7                              | \$ 312.7   |

See accompanying notes to condensed consolidated financial statements.



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AGCO CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of AGCO Corporation and its subsidiaries (the “Company” or “AGCO”) included herein have been prepared in accordance with United States generally accepted accounting principles (“U.S. GAAP”) for interim financial information and the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, necessary to present fairly the Company’s financial position, results of operations, comprehensive income (loss) and cash flows at the dates and for the periods presented. These condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Results for interim periods are not necessarily indicative of the results for the year.

The Company has a wholly-owned subsidiary in Argentina that manufactures and distributes agricultural equipment and replacement parts within Argentina. As of June 30, 2018, on the basis of currently available data related to inflation indices and as a result of the devaluation of the Argentine peso relative to the United States dollar, the Argentinian economy was determined to be highly inflationary. A highly inflationary economy is one where the cumulative inflation rate for the three years preceding the beginning of the reporting period, including interim reporting periods, is in excess of 100 percent. In accordance with this designation and based on the guidance in ASC 830, “Foreign Currency Matters”, the Company changed the functional currency of its wholly-owned subsidiary from the Argentinian peso to the U.S. dollar effective July 1, 2018. For the three months ended September 30, 2018, the Company’s wholly-owned subsidiary in Argentina had net sales of approximately \$21.3 million and total assets of approximately \$110.7 million as of September 30, 2018. The monetary assets and liabilities denominated in the Argentine peso were approximately \$25.2 million and approximately \$11.0 million, respectively, as of September 30, 2018. The monetary assets and liabilities were remeasured based on current published exchange rates.

Recent Accounting Pronouncements

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2018-14, “Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans” (“ASU 2018-14”). The standard revises the annual disclosure requirements by removing disclosures no longer considered cost beneficial, clarifying specific requirements of disclosures and adding certain disclosures identified as relevant. ASU 2018-14 is effective for annual periods beginning after December 15, 2020. The standard should be applied on a retrospective basis to all periods presented. Early adoption is permitted. The Company expects to early adopt the standard for the year ended December 31, 2018, and that the adoption will not have a material impact on its results of operations, financial condition and cash flows.

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). The standard revises the disclosure requirements by removing disclosures no longer considered cost beneficial, modifying specific requirements of disclosures and adding certain disclosures identified as relevant. ASU 2018-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. Early adoption is permitted. Certain amendments of the standard should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments of the standard should be applied retrospectively to all periods presented. The Company is currently evaluating the impact of adopting this standard on the Company’s results of operations, financial condition and cash flows, but does not expect the impact to be material.

In February 2018, the FASB issued ASU 2018-02, “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (“ASU 2018-02”), which allows for the election to reclassify the disproportionate income tax effects of the Tax Cuts and Jobs Act (the “2017 Tax Act”) on items within accumulated other comprehensive income (loss) to retained earnings. These disproportionate income tax effect items are referred to as “stranded tax effects.” The amendments within ASU 2018-02 only relate to the reclassification of the income tax effects of the 2017 Tax Act. Certain disclosures are required in the period of adoption as to whether an entity has elected to reclassify the stranded tax effects. ASU 2018-02 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. The standard should be applied either in the period of adoption or retrospectively to each period in which the effect of the change in the U.S. corporate income

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(unaudited)

tax rate in the 2017 Tax Act is recognized. Early adoption is permitted for any interim or annual period. The Company is currently evaluating the impact of adopting this standard on the Company's results of operations, financial condition and cash flows, but does not expect the impact to be material.

In August 2017, the FASB issued ASU 2017-12, "Targeted Improvements to Accounting for Hedging Activities" ("ASU 2017-12"), which aligns an entity's risk management activities and financial reporting for hedge relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The amendments include 1) the ability to apply hedge accounting for risk components in hedging relationships involving nonfinancial risk and interest rate risk, 2) new alternatives for measuring the hedged item for fair value hedges of interest rate risk, 3) elimination of the requirement to separately measure and report hedge ineffectiveness, 4) requirement to present the earnings effect of the hedging instrument in the same income statement line in which the earnings effect of the hedged item is reported and 5) less stringent requirements for effectiveness testing, hedge documentation and applying the critical terms match method. ASU 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods using a prospective approach. Early adoption is permitted for any interim or annual period. The amendments should be applied to existing hedging relationships on the date of adoption. The Company adopted ASU 2017-12 on January 1, 2018. The standard did not have a material impact on the Company's results of operations, financial condition and cash flows.

In March 2017, the FASB issued ASU 2017-07, "Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost" ("ASU 2017-07"), which requires the service cost component of net periodic pension and postretirement benefit cost be included in the same line item as other compensation costs arising from services rendered by employees. The other components of net periodic pension and postretirement benefit cost are required to be classified outside the subtotal of income from operations. Of the components of net periodic pension and postretirement benefit cost, only the service cost component will be eligible for asset capitalization. ASU 2017-07 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods, using a retrospective approach for the presentation of the service cost component and other components of net periodic pension and postretirement benefit cost in the statement of operations; and a prospective approach for the capitalization of the service cost component of net periodic pension and postretirement benefit cost in assets. Early adoption is permitted for any interim or annual period. ASU 2017-07 allows a practical expedient for applying the retrospective presentation requirements. The Company adopted ASU 2017-07 on January 1, 2018 and retrospectively applied the standard to the presentation of the other components of net periodic pension and postretirement benefit costs in the Company's Condensed Consolidated Statements of Operations. As part of the adoption, the Company elected to use the practical expedient, which allowed the Company to use the information previously disclosed as the basis for applying the retrospective presentation requirements of the standard. For both the three and nine months ended September 30, 2017, the Company reclassified approximately \$0.1 million of expense related to the other components of net periodic pension and postretirement costs from "Selling, general and administrative expenses" and "Engineering expenses" to "Other expenses, net." as a result of the retrospective application of ASU 2017-07.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"), which eliminates Step 2 from the goodwill impairment test. Under the standard, an entity should perform its goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, resulting in an impairment charge that is the amount by which the carrying amount exceeds the reporting unit's fair value. The impairment charge, however, should not exceed the total amount of goodwill allocated to a reporting unit. The impairment assessment under ASU 2017-04 applies to all reporting units, including those with a zero or negative carrying amount. ASU 2017-04 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods using a prospective approach. Early adoption is permitted for any interim or annual goodwill impairment test performed on testing dates after January 1, 2017. The Company is currently evaluating the impact of adopting this

standard on the Company's results of operations, financial condition and cash flows, but does not expect the impact to be material.

In June 2016, the FASB issued ASU 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"), which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. This standard will likely impact the results of operations and financial condition of the Company's finance joint ventures and as a result, will likely impact the Company's "Investment in affiliates" and "Equity in net earnings of affiliates" upon adoption. The Company's finance joint ventures are currently evaluating the standard's impact to their results of operations and financial condition.



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(unaudited)

In February 2016, the FASB issued ASU 2016-02, “Leases” (“ASU 2016-02”), which supersedes the existing lease guidance under current U.S. GAAP. ASU 2016-02 is based on the principle that entities should recognize assets and liabilities arising from leases. The new standard does not significantly change the lessees’ recognition, measurement and presentation of expenses and cash flows from the previous accounting standard and leases continue to be classified as finance or operating. ASU 2016-02’s primary change is the requirement for entities to recognize a lease liability for payments and a right-of-use (“ROU”) asset representing the right to use the leased asset during the term of an operating lease arrangement. Lessees are permitted to make an accounting policy election to not recognize the asset and liability for leases with a term of 12 months or less. Lessors’ accounting under the new standard is largely unchanged from the previous accounting standard. In addition, ASU 2016-02 expands the disclosure requirements of lease arrangements. The new standard is effective for reporting periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted. Upon adoption, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, “Targeted Improvements”, which allows for a new, optional transition method that provides the option to use the effective date as the date of initial application on transition. Under this option, the comparative periods would continue to apply the legacy guidance in Accounting Standard Codification (“ASC”) 840, including the disclosure requirements, and a cumulative effect adjustment would be recognized in the period of adoption rather than the earliest period presented. Under this transition option, comparative reporting would not be required and the provisions of the standard would be applied prospectively to leases in effect at the date of adoption. The Company is currently working to complete the design of new processes and internal controls, which include the implementation of a software solution and finalizing the evaluation of the Company’s population of leased assets to assess the effect of the new guidance on the Company’s financial statements. The Company plans to adopt the new guidance effective January 1, 2019 using a modified retrospective approach through a cumulative effect adjustment to “Retained earnings” as of the beginning of the period of adoption. The new standard provides a number of optional practical expedients in transition. The Company expects to elect the “package of practical expedients” which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. The Company does not expect to elect the use-of-hindsight or the practical expedient pertaining to land easements (the latter is not applicable to the Company). The Company expects the adoption of the new standard to have a material effect on the Company’s Consolidated Financial Statements upon adoption. While the Company continues to assess all of the effects of the adoption, it currently believes the most significant effects relate to the recognition of new ROU assets and lease liabilities on the Company’s Consolidated Balance Sheets for operating leases, as well as providing significant new disclosures about the Company’s leasing activities. The Company does not expect material changes in its leasing activities between now and adoption. The new standard also provides practical expedients for an entity’s ongoing accounting for leases. The Company currently expects to elect the short-term lease exemption for all leases that qualify, meaning the Company will not recognize ROU assets or lease liabilities. The Company also currently expects to elect the practical expedient to separate lease and non-lease components for a majority of its leases, other than real estate and office equipment leases.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), which provides a single, comprehensive revenue recognition model for all contracts with customers with a five-step analysis in determining when and how revenue is recognized. The new model requires revenue recognition to depict the transfer of promised goods or services to customers at an amount that reflects the consideration expected to be received in exchange for those goods or services. Additional disclosures also are required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, including significant judgments and changes in those judgments. Entities have the option to apply the new standard under a full retrospective approach to each prior reporting period presented, or a modified retrospective approach with the cumulative effect of initial adoption and application within the Condensed Consolidated Statement

of Stockholders' Equity.

The Company adopted ASU 2014-09 with an application date of January 1, 2018 using the modified retrospective approach. Under this method, the Company recognized the cumulative effect of initially applying ASU 2014-09 as an adjustment to the opening balance of stockholders' equity as of January 1, 2018 within "Retained earnings." The cumulative effect was approximately \$0.4 million, which was related to the recognition of contract assets and contract liabilities for the value of the expected replacement parts returns. The comparative information has not been adjusted and continues to be reported under ASU 2009-13, "Revenue Recognition." The details of the significant changes and quantitative impact of the changes are discussed below.

The Company has enhanced its accounting policies and practices, business processes, systems and controls, as well as designed and implemented specific internal controls over the implementation and adherence to the standard, including new disclosure requirements.

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## Replacement Parts Returns

The Company has various promotional and annual return programs with respect to the sale of replacement parts whereby the Company's dealers, distributors and other customers can return specified replacement parts pursuant to such programs. The Company previously recognized revenue for the sale of replacement parts and recorded a corresponding provision for the amount of expected returns at the time of sale. Pursuant to the adoption of ASU 2014-09, the Company recognized a contract asset for the right to recover returned replacement parts at cost, reflected within "Other current assets" in the Company's Condensed Consolidated Balance Sheets. Conversely, the provision for expected returns is recorded at the sales value of expected returns, reflected as a contract liability within "Accrued expenses." The Company's estimates of returns are based on the terms of the promotional and annual return programs and anticipated returns in the future.

The following table summarizes the impact of adopting ASU 2014-09 on the Company's Condensed Consolidated Balance Sheet as of September 30, 2018 (in millions):

|   | As<br>Reported | Balances<br>Without<br>Adoption<br>of ASU<br>2014-09 | Increase<br>(Decrease)<br>Due to<br>Adoption |
|---|----------------|--|--|
| <b>Assets</b>                               |                |  |  |
| Accounts and notes receivable, net          | \$ 992.7       | \$ 992.5   | \$ 0.2                                       |
| Other current assets                        | 401.8          | 390.6  | 11.2   |
| Total current assets                        | 3,789.0        | 3,777.6  | 11.4   |
| Total assets                                | 7,917.1        | 7,905.7  | 11.4   |
| <b>Liabilities and Stockholders' Equity</b> |                |  |  |
| Accrued expenses                            | \$ 1,425.5     | \$ 1,413.4   | \$ 12.1                                      |
| Total current liabilities                   | 2,659.1        | 2,647.0  | 12.1   |
| Retained earnings                           | 4,405.4        | 4,406.1  | (0.7 )                                       |
| Total stockholder's equity                  | 2,968.9        | 2,969.6  | (0.7 )                                       |
| Total liabilities and stockholder's equity  | 7,917.1        | 7,905.7  | 11.4   |

The impact of adopting ASU 2014-09 on the Condensed Consolidated Statement of Operations and Condensed Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2018 was not material.

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## 2. RESTRUCTURING EXPENSES

Beginning in 2014 through 2018, the Company announced and initiated several actions to rationalize employee headcount at various manufacturing facilities and various administrative offices located in Europe, South America, China and the United States in order to reduce costs in response to softening global market demand and lower production volumes. The aggregate headcount reduction was approximately 3,370 employees between 2014 and 2017. During the nine months ended September 30, 2018, the Company recorded severance and related costs associated with further rationalizations in Europe, China, South America and the United States, in connection with the termination of approximately 460 employees. Restructuring expenses activity during the nine months ended September 30, 2018 is summarized as follows (in millions):

|                                   | Write-down<br>of Property, Employee<br>Plant and Severance<br>Equipment |         | Total  |
|-----------------------------------|---|---------|--------|
| Balance as of December 31, 2017   | \$ —  | \$ 10.9 | \$10.9 |
| First quarter 2018 provision      | —   | 5.9     | 5.9    |
| First quarter 2018 cash activity  | —   | (3.7 )  | (3.7 ) |
| Foreign currency translation      | —   | 0.1     | 0.1    |
| Balance as of March 31, 2018      | —   | 13.2    | 13.2   |
| Second quarter 2018 provision     | 0.3   | 2.4     | 2.7    |
| Less: Non-cash activity           | (0.3 )  | —       | (0.3 ) |
| Cash expense                      | —   | 2.4     | 2.4    |
| Second quarter 2018 cash activity | —   | (4.7 )  | (4.7 ) |
| Foreign currency translation      | —   | (0.8 )  | (0.8 ) |
| Balance as of June 30, 2018       | \$ —  | \$ 10.1 | \$10.1 |
| Third quarter 2018 provision      | —   | 1.5     | 1.5    |
| Third quarter 2018 cash activity  | —   | (2.0 )  | (2.0 ) |
| Foreign currency translation      | —   | (0.4 )  | (0.4 ) |
| Balance as of September 30, 2018  | \$ —  | \$ 9.2  | \$9.2  |

## 3. STOCK COMPENSATION PLANS

The Company recorded stock compensation expense as follows for the three and nine months ended September 30, 2018 and 2017 (in millions):

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |        |
|--|--|-------|---|--------|
| Cost of goods sold                           | \$0.8  | \$0.8 | \$2.7   | \$2.4  |
| Selling, general and administrative expenses | 9.7  | 7.9   | 30.6  | 29.1   |
| Total stock compensation expense             | \$10.5   | \$8.7 | \$33.3  | \$31.5 |

## Stock Incentive Plan

Under the Company's 2006 Long Term Incentive Plan (the "2006 Plan"), up to 10,000,000 shares of AGCO common stock may be issued. As of September 30, 2018, of the 10,000,000 shares reserved for issuance under the 2006 Plan, approximately 3,391,294 shares were available for grant, assuming the maximum number of shares are earned related to the performance award grants discussed below. The 2006 Plan allows the Company, under the direction of the Board of Directors' Compensation Committee, to make grants of performance shares, stock appreciation rights, restricted stock units and restricted stock awards to employees, officers and non-employee directors of the Company.

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### Long-Term Incentive Plan and Related Performance Awards

The weighted average grant-date fair value of performance awards granted under the 2006 Plan during the nine months ended September 30, 2018 and 2017 was \$71.40 and \$61.94, respectively.

During the nine months ended September 30, 2018, the Company granted 441,740 performance awards related to varying performance periods. The awards granted assume the maximum target level of performance is achieved, as applicable. The compensation expense associated with all awards granted under the 2006 Plan is amortized ratably over the vesting or performance period based on the Company's projected assessment of the level of performance that will be achieved and earned. Performance award transactions during the nine months ended September 30, 2018 were as follows and are presented as if the Company were to achieve its maximum levels of performance under the plan awards:

|   |           |
|---|-----------|
| Shares awarded but not earned at January 1    | 1,645,078 |
| Shares awarded                                | 441,740   |
| Shares forfeited                              | (63,874 ) |
| Shares earned                                 | —         |
| Shares awarded but not earned at September 30 | 2,022,944 |

As of September 30, 2018, the total compensation cost related to unearned performance awards not yet recognized, assuming the Company's current projected assessment of the level of performance that will be achieved and earned, was approximately \$38.4 million, and the weighted average period over which it is expected to be recognized is approximately two years. The compensation cost not yet recognized could be higher or lower based on actual achieved levels of performance.

### Restricted Stock Unit Awards

During the nine months ended September 30, 2018, the Company granted 247,404 restricted stock unit ("RSU") awards. These awards entitle the participant to receive one share of the Company's common stock for each RSU granted and vest one-third per year over a three-year requisite service period. The compensation expense associated with these awards is amortized ratably over the requisite service period for the awards that are expected to vest.

The weighted average grant-date fair value of the RSUs granted under the 2006 Plan during the nine months ended September 30, 2018 and 2017 was \$63.99 and \$61.99, respectively. RSU transactions during the nine months ended September 30, 2018 were as follows:

|   |           |
|---|-----------|
| Shares awarded but not vested at January 1    | 237,468   |
| Shares awarded                                | 247,404   |
| Shares forfeited                              | (8,896 )  |
| Shares vested                                 | (120,305) |
| Shares awarded but not vested at September 30 | 355,671   |

As of September 30, 2018, the total compensation cost related to the unvested RSUs not yet recognized was approximately \$16.8 million, and the weighted average period over which it is expected to be recognized is approximately two years.



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### Stock-Settled Appreciation Rights

Compensation expense associated with the stock-settled appreciation rights (“SSAR”) awards is amortized ratably over the requisite service period for the awards that are expected to vest. The Company estimated the fair value of the grants using the Black-Scholes option pricing model. SSAR transactions during the nine months ended September 30, 2018 were as follows:

|                                   |           |
|-----------------------------------|-----------|
| SSARs outstanding at January 1    | 1,060,192 |
| SSARs granted                     | 157,700   |
| SSARs exercised                   | (84,250 ) |
| SSARs canceled or forfeited       | (8,350 )  |
| SSARs outstanding at September 30 | 1,125,292 |

As of September 30, 2018, the total compensation cost related to the unvested SSARs not yet recognized was approximately \$4.4 million, and the weighted average period over which it is expected to be recognized is approximately two years.

### Director Restricted Stock Grants

The 2006 Plan provides for annual restricted stock grants of the Company’s common stock to all non-employee directors. The 2018 grant was made on April 26, 2018 and equated to 17,226 shares of common stock, of which 12,629 shares of common stock were issued after shares were withheld for taxes. The Company recorded stock compensation expense of approximately \$1.1 million during the nine months ended September 30, 2018 associated with this grant.



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## 4. GOODWILL AND OTHER INTANGIBLE ASSETS

Changes in the carrying amount of acquired intangible assets during the nine months ended September 30, 2018 are summarized as follows (in millions):

|  | Trademarks<br>and<br>Tradenames | Customer<br>Relationships | Patents and<br>Technology | Land<br>Use<br>Rights | Total   |
|--|---------------------------------|---------------------------|---------------------------|-----------------------|---------|
| Gross carrying amounts:                    |                                 |                           |                           |                       |         |
| Balance as of December 31, 2017            | \$ 208.4                        | \$ 600.4                  | \$ 160.0                  | \$ 9.1                | \$977.9 |
| Foreign currency translation               | (4.1 )                          | (13.1 )                   | (3.2 )                    | (0.5 )                | (20.9 ) |
| Balance as of September 30, 2018           | \$ 204.3                        | \$ 587.3                  | \$ 156.8                  | \$ 8.6                | \$957.0 |
| Accumulated amortization:                  |                                 |                           |                           |                       |         |
| Balance as of December 31, 2017            | \$ 61.4                         | \$ 279.7                  | \$ 73.4                   | \$ 3.0                | \$417.5 |
| Amortization expense and impairment charge | 10.9                            | 30.6                      | 7.6                       | 0.1                   | 49.2    |
| Foreign currency translation               | (1.5 )                          | (9.4 )                    | (2.1 )                    | (0.1 )                | (13.1 ) |
| Balance as of September 30, 2018           | \$ 70.8                         | \$ 300.9                  | \$ 78.9                   | \$ 3.0                | \$453.6 |

|                                     | Trademarks<br>and<br>Tradenames |
|-------------------------------------|---------------------------------|
| Indefinite-lived intangible assets: |                                 |
| Balance as of December 31, 2017     | \$ 88.6                         |
| Foreign currency translation        | (1.2 )                          |
| Balance as of September 30, 2018    | \$ 87.4                         |

The Company currently amortizes certain acquired intangible assets, primarily on a straight-line basis, over their estimated useful lives, which range from three to 50 years.

Changes in the carrying amount of goodwill during the nine months ended September 30, 2018 are summarized as follows (in millions):

|                                  | North<br>America | South<br>America | Europe/Middle<br>East | Asia/<br>Pacific/Africa | Consolidated |
|----------------------------------|------------------|------------------|-----------------------|-------------------------|--------------|
| Balance as of December 31, 2017  | \$ 611.1         | \$ 136.4         | \$ 671.0              | \$ 122.9                | \$ 1,541.4   |
| Adjustment                       | —                | —                | 1.9                   | —                       | 1.9          |
| Foreign currency translation     | —                | (23.1 )          | (21.7 )               | (4.1 )                  | (48.9 )      |
| Balance as of September 30, 2018 | \$ 611.1         | \$ 113.3         | \$ 651.2              | \$ 118.8                | \$ 1,494.4   |

Goodwill is tested for impairment on an annual basis and more often if indications of impairment exist. The Company conducts its annual impairment analyses as of October 1 each fiscal year.

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Notes to Condensed Consolidated Financial Statements - Continued  
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## 5. INDEBTEDNESS

Long-term debt consisted of the following at September 30, 2018 and December 31, 2017 (in millions):

|   | September 30, December 31, |            |
|---|----------------------------|------------|
|   | 2018                       | 2017       |
| 1.056% Senior term loan due 2020                      | \$ 231.6                   | \$ 239.8   |
| Credit facility, expiring 2020                        | 390.3                      | 471.2      |
| Senior term loans due 2021                            | 115.8                      | 119.9      |
| 5 <sup>7</sup> / <sub>8</sub> % Senior notes due 2021 | 115.8                      | 305.3      |
| Senior term loans due between 2019 and 2028           | 825.7                      | 449.7      |
| Other long-term debt                                  | 29.4                       | 61.0       |
| Debt issuance costs                                   | (3.8                       | ) (4.0     |
|   | 1,704.8                    | 1,642.9    |
| Less: Current portion of other long-term debt         | (5.5                       | ) (24.8    |
| Total long-term debt, less current portion            | \$ 1,699.3                 | \$ 1,618.1 |

## 1.056% Senior Term Loan

In December 2014, the Company entered into a term loan with the European Investment Bank, which provided the Company with the ability to borrow up to €200.0 million. The €200.0 million (or approximately \$231.6 million as of September 30, 2018) of funding was received on January 15, 2015 with a maturity date of January 15, 2020. The Company has the ability to prepay the term loan before its maturity date. Interest is payable on the term loan at 1.056% per annum, payable quarterly in arrears.

## Credit Facility

The Company's revolving credit and term loan facility as of September 30, 2018 consisted of an \$800.0 million multi-currency revolving credit facility and a €312.0 million (or approximately \$361.3 million as of September 30, 2018) term loan facility. The maturity date of the credit facility was June 26, 2020. Under the credit facility agreement, interest accrued on amounts outstanding, at the Company's option, depending on the currency borrowed, at either (1) LIBOR or EURIBOR plus a margin ranging from 1.0% to 1.75% based on the Company's leverage ratio, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in U.S. dollars plus 1.0% plus a margin ranging from 0.0% to 0.25% based on the Company's leverage ratio. As is more fully described in Note 10, the Company entered into an interest rate swap in 2015 to convert the term loan facility's floating interest rate to a fixed interest rate of 0.33% plus the applicable margin over the remaining life of the term loan facility. As of September 30, 2018, the Company had \$390.3 million of outstanding borrowings under the credit facility and the ability to borrow approximately \$771.0 million under the facility. Approximately \$29.0 million was outstanding under the multi-currency revolving credit facility and €312.0 million (or approximately \$361.3 million) was outstanding under the term loan facility as of September 30, 2018. As of December 31, 2017, approximately \$97.0 million was outstanding under the Company's multi-currency revolving credit facility, and the Company had the ability to borrow approximately \$703.0 million under the facility. Approximately €312.0 million (or approximately \$374.2 million) was outstanding under the term loan facility as of December 31, 2017.

During 2015, the Company designated its €312.0 million (\$361.3 million as of September 30, 2018) term loan facility as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. See Note 10 for additional information about the net investment hedge.

On October 17, 2018 the Company entered into a new credit facility agreement, consisting of a multi-currency revolving credit facility of \$800.0 million. The maturity date of the new credit facility is October 17, 2023. Under the new credit facility agreement, the Company's credit spread is based on the Company's published long-term debt rating. Interest accrues on amounts outstanding under the credit facility, at the Company's option, at either (1) LIBOR plus a margin ranging from 0.875% to 1.875% based on the Company's credit rating, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in US dollars plus 1.0%, plus a margin ranging from 0.0% to 0.875% based on the Company's

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credit rating. The new credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of a default. The Company also has to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. In connection with the closing of new credit facility in October 2018, the Company also repaid its outstanding €312.0 million (\$361.3 million as of September 30, 2018) term loan under its previous revolving credit and term loan facility discussed above. The Company recorded approximately \$0.9 million associated with the write-off of deferred debt issuance costs associated with the repayment.

## Senior Term Loans Due 2021

In April 2016, the Company entered into two term loan agreements with Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (“Rabobank”), in the amount of €100.0 million and €200.0 million, respectively. The provisions of the two term loans were identical in nature. In December 2017, the Company repaid its €200.0 million (or approximately \$239.8 million) term loan. The Company's €100.0 million (or approximately \$115.8 million as of September 30, 2018) remains outstanding. The Company had the ability to prepay the term loans before their maturity date on April 26, 2021. Interest is payable on the remaining term loan per annum, paid quarterly in arrears, equal to the EURIBOR plus a margin ranging from 1.0% to 1.75% based on the Company's net leverage ratio.

5<sup>7/8</sup>% Senior Notes

The Company's 5<sup>7/8</sup>% senior notes due December 1, 2021 constituted senior unsecured and unsubordinated indebtedness. Interest was payable on the notes semi-annually in arrears. At any time prior to September 1, 2021, the Company could redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to the greater of (i) 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any, to, but excluding, the redemption date, or (ii) the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of interest accrued to the date of redemption) discounted to the redemption date at the treasury rate plus 0.5%, plus accrued and unpaid interest, including additional interest, if any. Beginning September 1, 2021, the Company could redeem the notes, in whole or in part from time to time, at its option, at a redemption price equal to 100% of the principal amount plus accrued and unpaid interest, including additional interest, if any. As is more fully described in Note 10, the Company entered into an interest rate swap in 2015 to convert the senior notes' fixed interest rate to a floating interest rate over the remaining life of the senior notes. During 2016, the Company terminated the interest rate swap. As a result, the Company recorded a deferred gain of approximately \$7.3 million associated with the termination, which is being amortized as a reduction to “Interest expense, net” over the remaining term of the 5<sup>7/8</sup>% senior notes through December 1, 2021.

In May 2018, the Company completed a cash tender offer to purchase any and all of its outstanding 5<sup>7/8</sup>% senior notes at a cash purchase price of \$1,077.50 per \$1,000.00 of senior notes. As a result of the tender offer, the Company repurchased approximately \$185.9 million of principal amount of the senior notes for approximately \$200.3 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately \$15.7 million, including associated fees. The Company also recorded approximately \$3.0 million of accelerated amortization of the deferred gain related to the terminated interest rate swap instrument associated with the senior notes discussed above. Both the loss on extinguishment and the accelerated amortization were reflected in “Interest expense, net,” for the nine months ended September 30, 2018. As of September 30, 2018 and December 31, 2017, the unamortized portion of the deferred gain was approximately \$1.7 million and \$5.3 million, respectively. The amortization for the three and nine months ended September 30, 2018 was approximately \$0.1 million and \$3.6 million, respectively. The amortization for the three and nine months ended September 30, 2017 was approximately \$0.3 million and \$1.0 million, respectively.

In October 2018, the Company repurchased the remaining principal amount of the senior notes of approximately \$114.1 million for approximately \$122.5 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately \$8.8 million, including associated fees. The Company also recorded approximately \$1.7 million of accelerated amortization of the deferred gain related to the terminated interest rate swap instrument associated with the senior notes discussed above. Both the loss on extinguishment and the accelerated amortization will be reflected in “Interest expense, net,” for the three months ended December 31, 2018.

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Senior Term Loans Due Between 2019 and 2028

On August 1, 2018, the Company borrowed an aggregate amount of indebtedness of €338.0 million (or approximately \$394.7 million) through a group of seven related term loan agreements. Proceeds from the borrowings were used to repay borrowings under the Company's revolving credit facility.

In aggregate, the Company has indebtedness of €713.0 million (or approximately \$825.7 million as of September 30, 2018) through a group of fourteen related term loan agreements, inclusive of the seven agreements discussed above. The provisions of the term loan agreements are identical in nature, with the exception of interest rate terms and maturities. The Company has the ability to prepay the term loans before their maturity dates. For the term loans with a fixed interest rate, interest is payable in arrears on an annual basis, with interest rates ranging from 0.70% to 2.26% and a maturity date between October 2019 and August 2028. For the term loans with a floating interest rate, interest is payable in arrears on a semi-annual basis, with interest rates based on the EURIBOR plus a margin ranging from 0.70% to 1.25% and a maturity date between October 2019 and August 2025.

Short-Term Borrowings

As of September 30, 2018 and December 31, 2017, the Company had short-term borrowings due within one year of approximately \$181.3 million and \$90.8 million, respectively.

Standby Letters of Credit and Similar Instruments

The Company has arrangements with various banks to issue standby letters of credit or similar instruments, which guarantee the Company's obligations for the purchase or sale of certain inventories and for potential claims exposure for insurance coverage. At September 30, 2018 and December 31, 2017, outstanding letters of credit totaled \$14.1 million and \$15.2 million, respectively.

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Notes to Condensed Consolidated Financial Statements - Continued  
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## 6. INVENTORIES

Inventories at September 30, 2018 and December 31, 2017 were as follows (in millions):

|                              | September 30, December 31, |            |
|------------------------------|----------------------------|------------|
|                              | 2018                       | 2017       |
| Finished goods               | \$ 773.4                   | \$ 684.1   |
| Repair and replacement parts | 601.2                      | 605.9      |
| Work in process              | 250.9                      | 178.7      |
| Raw materials                | 476.3                      | 404.2      |
| Inventories, net             | \$ 2,101.8                 | \$ 1,872.9 |

## 7. PRODUCT WARRANTY

The warranty reserve activity for the three and nine months ended September 30, 2018 and 2017 consisted of the following (in millions):

|   | Three Months  |               | Nine Months   |               |
|---|---------------|---------------|---------------|---------------|
|   | Ended         |               | Ended         |               |
|   | September 30, | September 30, | September 30, | September 30, |
|   | 2018          | 2017          | 2018          | 2017          |
| Balance at beginning of period                          | \$324.8       | \$296.9       | \$316.0       | \$255.6       |
| Acquisitions  | —             | 2.1           | —             | 2.1           |
| Accruals for warranties issued during the period        | 55.6          | 47.7          | 164.3         | 152.6         |
| Settlements made (in cash or in kind) during the period | (49.7 )       | (49.3 )       | (139.7 )      | (127.4 )      |
| Foreign currency translation                            | (0.7 )        | 6.2           | (10.6 )       | 20.7          |
| Balance at September 30                                 | \$330.0       | \$303.6       | \$330.0       | \$303.6       |

The Company's agricultural equipment products generally are warranted against defects in material and workmanship for a period of one to four years. The Company accrues for future warranty costs at the time of sale based on historical warranty experience. Approximately \$283.9 million and \$273.6 million of warranty reserves are included in "Accrued expenses" in the Company's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively. Approximately \$46.1 million and \$42.4 million of warranty reserves are included in "Other noncurrent liabilities" in the Company's Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017, respectively.

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## 8. NET INCOME PER COMMON SHARE

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during each period. Diluted net income per common share assumes the exercise of outstanding SSARs and the vesting of performance share awards and RSUs using the treasury stock method when the effects of such assumptions are dilutive. A reconciliation of net income attributable to AGCO Corporation and its subsidiaries and weighted average common shares outstanding for purposes of calculating basic and diluted net income per share for the three and nine months ended September 30, 2018 and 2017 is as follows (in millions, except per share data):

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |        | Nine Months<br>Ended<br>September 30,<br>2017 |         |
|--|--|--------|---|---------|
| Basic net income per share:  |  |        |   |         |
| Net income attributable to AGCO Corporation and subsidiaries   | \$71.1   | \$60.7 | \$186.8                                       | \$142.1 |
| Weighted average number of common shares outstanding   | 78.7   | 79.5   | 79.2  | 79.5    |
| Basic net income per share attributable to AGCO Corporation and subsidiaries   | \$0.90   | \$0.76 | \$2.36  | \$1.79  |
| Diluted net income per share:  |  |        |   |         |
| Net income attributable to AGCO Corporation and subsidiaries   | \$71.1   | \$60.7 | \$186.8                                       | \$142.1 |
| Weighted average number of common shares outstanding   | 78.7   | 79.5   | 79.2  | 79.5    |
| Dilutive SSARs, performance share awards and RSUs  | 1.0  | 0.7    | 0.9   | 0.6     |
| Weighted average number of common shares and common share equivalents outstanding for purposes of computing diluted net income per share | 79.7   | 80.2   | 80.1  | 80.1    |
| Diluted net income per share attributable to AGCO Corporation and subsidiaries   | \$0.89   | \$0.76 | \$2.33  | \$1.77  |

SSARs to purchase approximately 0.5 million and 0.4 million shares of the Company's common stock for the three and nine months ended September 30, 2018, respectively, and approximately 0.3 million shares of the Company's common stock for the three and nine months ended September 30, 2017, were outstanding but not included in the calculation of weighted average common and common equivalent shares outstanding because they had an antidilutive impact.

## 9. INCOME TAXES

At September 30, 2018 and December 31, 2017, the Company had approximately \$160.1 million and \$163.4 million, respectively, of unrecognized tax benefits, all of which would affect the Company's effective tax rate if recognized. At September 30, 2018 and December 31, 2017, the Company had approximately \$56.8 million and \$61.8 million, respectively, of accrued or deferred taxes related to uncertain income tax positions connected with ongoing income tax audits in various jurisdictions that it expects to settle or pay in the next 12 months. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. At September 30, 2018 and December 31, 2017, the Company had accrued interest and penalties related to unrecognized tax benefits of \$25.2 million and \$23.0 million, respectively. Generally, tax years 2012 through 2017 remain open to examination by taxing authorities in the United States and certain other foreign tax jurisdictions.

On December 22, 2017, the 2017 Tax Act was enacted in the United States. The 2017 Tax Act includes a number of changes to existing U.S. tax laws that impact the Company, including a reduction of the U.S. corporate income tax rate from 35 percent to 21 percent for tax years beginning after December 31, 2017. The 2017 Tax Act also provides for a one-time transition tax on certain foreign earnings and the acceleration of depreciation for certain assets placed



into service after September 27, 2017, as well as prospective changes beginning in 2018, including the repeal of the domestic manufacturing deduction, capitalization of research and development expenditures, additional limitations on executive compensation and limitations on the deductibility of interest.

In 2017, the Company recorded a provision in accordance with Staff Accounting Bulletin No. 118, which provides SEC Staff guidance for the application of ASC 740, "Income Taxes", in the reporting period in which the 2017 Tax Act was

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enacted. The provision reflected both the income tax effects of the 2017 Tax Act for which the accounting under ASC 740 was complete as well as provisional amounts for those specific income tax effects of the 2017 Tax Act for which the accounting under ASC 740 is incomplete but a reasonable estimate was determined. The Company did not identify any items for which the income tax effects of the 2017 Tax Act had not been completed and a reasonable estimate could not be determined as of December 31, 2017.

The Company is in the process of finalizing its calculations with respect to the tax reform legislation. The final impact of the tax reform legislation may differ due to factors such as refinement of the Company's calculations, changes in interpretations and assumptions that the Company and its advisors have made, and additional guidance that may be issued in the future by the U.S. and state governments. For the nine months ended September 30, 2018, the Company did not make any material adjustments to the provisional amounts recorded as of December 31, 2017.

The Company has previously established valuation allowances to fully or partially reserve against certain net deferred tax assets in several jurisdictions, including the United States. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company assesses the likelihood that its deferred tax assets will be recovered from estimated future taxable income and available tax planning strategies and determines in certain cases that adjustments to the valuation allowances are appropriate. In making these assessments, all available evidence is considered including the current economic climate, as well as reasonable tax planning strategies. The Company believes it is more likely than not that the Company will realize its deferred tax assets, net of any applicable valuation allowances, in future years.

## 10. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company has significant manufacturing operations in the United States, France, Germany, Finland and Brazil, and it purchases a portion of its tractors, combines and components from third-party foreign suppliers, primarily in various European countries and in Japan. The Company also sells products in over 150 countries throughout the world. The Company's most significant transactional foreign currency exposures are the Euro, Brazilian real and the Canadian dollar in relation to the United States dollar, and the Euro in relation to the British pound.

The Company attempts to manage its transactional foreign exchange exposure by hedging foreign currency cash flow forecasts and commitments arising from the anticipated settlement of receivables and payables and from future purchases and sales. Where naturally offsetting currency positions do not occur, the Company hedges certain, but not all, of its exposures through the use of foreign currency contracts. The Company's translation exposure resulting from translating the financial statements of foreign subsidiaries into United States dollars may be partially hedged from time to time. The Company's most significant translation exposures are the Euro, the British pound and the Brazilian real in relation to the United States dollar and the Swiss franc in relation to the Euro. When practical, the translation impact is reduced by financing local operations with local borrowings.

The Company uses floating rate and fixed rate debt to finance its operations. The floating rate debt obligations expose the Company to variability in interest payments due to changes in the EURIBOR and LIBOR benchmark interest rates. The Company believes it is prudent to limit the variability of a portion of its interest payments, and to meet that objective, the Company periodically enters into interest rate swaps to manage the interest rate risk associated with the Company's borrowings. The Company designates interest rate contracts used to convert the interest rate exposure on a portion of the Company's debt portfolio from a floating rate to a fixed rate as cash flow hedges, while those contracts converting the Company's interest rate exposure from a fixed rate to a floating rate are designated as fair value hedges.

To protect the value of the Company's investment in foreign operations against adverse changes in foreign currency exchange rates, the Company from time to time, may hedge a portion of the Company's net investment in the foreign subsidiaries by using a cross currency swap. The component of the gains and losses on the Company's net investment in the designated foreign operations driven by changes in foreign exchange rates are economically offset by movements in the fair value of the cross currency swap contracts.

The Company's senior management establishes the Company's foreign currency and interest rate risk management policies. These policies are reviewed periodically by the Finance Committee of the Company's Board of Directors. The policies allow for the use of derivative instruments to hedge exposures to movements in foreign currency and interest rates. The Company's policies prohibit the use of derivative instruments for speculative purposes.

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All derivatives are recognized on the Company's Condensed Consolidated Balance Sheets at fair value. On the date the derivative contract is entered into, the Company designates the derivative as either (1) a cash flow hedge of a forecasted transaction, (2) a fair value hedge of a recognized liability, (3) a hedge of a net investment in a foreign operation, or (4) a non-designated derivative instrument.

The Company formally documents all relationships between hedging instruments and hedged items, as well as the risk management objectives and strategy for undertaking various hedge transactions. The Company formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flow of hedged items or the net investment hedges in foreign operations. When it is determined that a derivative is no longer highly effective as a hedge, hedge accounting is discontinued on a prospective basis.

The Company categorizes its derivative assets and liabilities into one of three levels based on the assumptions used in valuing the asset or liability. See Note 14 for a discussion of the fair value hierarchy as per the guidance in ASC 820. The Company's valuation techniques are designed to maximize the use of observable inputs and minimize the use of unobservable inputs.

Counterparty Risk

The Company regularly monitors the counterparty risk and credit ratings of all the counterparties to the derivative instruments. The Company believes that its exposures are appropriately diversified across counterparties and that these counterparties are creditworthy financial institutions. If the Company perceives any risk with a counterparty, then the Company will cease to do business with that counterparty. There have been no negative impacts to the Company from any non-performance of any counterparties.

Derivative Transactions Designated as Hedging Instruments

Cash Flow Hedges

Foreign Currency Contracts

The Company uses cash flow hedges to minimize the variability in cash flows of assets or liabilities or forecasted transactions caused by fluctuations in foreign currency exchange rates. The changes in the fair values of these cash flow hedges are recorded in accumulated other comprehensive loss and are subsequently reclassified into "Cost of goods sold" during the period the sales and purchases are recognized. These amounts offset the effect of the changes in foreign currency rates on the related sale and purchase transactions.

During 2018, the Company designated certain foreign currency contracts as cash flow hedges of expected future sales and purchases. The total notional value of derivatives that were designated as cash flow hedges was \$109.3 million and \$96.8 million as of September 30, 2018 and December 31, 2017, respectively.

Interest Rate Swap Contract

The Company monitors the mix of short-term and long-term debt regularly. From time to time, the Company manages the risk to interest rate fluctuations through the use of derivative financial instruments. During 2015, the Company entered into an interest rate swap instrument with a notional amount of €312.0 million (or approximately \$361.3 million at September 30, 2018) and an expiration date of June 26, 2020. The swap was designated and accounted for as a cash flow hedge. Under the swap agreement, the Company pays a fixed interest rate of 0.33% plus the applicable margin,

and the counterparty to the agreement pays a floating interest rate based on the three-month EURIBOR.

Changes in the fair value of the interest rate swap are recorded in accumulated other comprehensive loss and are subsequently reclassified into "Interest expense, net" as a rate adjustment in the same period in which the related interest on the Company's floating rate term loan facility affects earnings.

As a result of the Company's new credit facility agreement and related terms therein as well as the change in the mix of short-term and long-term debt, the Company terminated the interest rate swap contract on October 22, 2018 and recorded a loss of approximately \$3.9 million which will be reflected in "Interest expense, net" for the three months ended December 31, 2018. Refer to Note 5 for further information.

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The following table summarizes the after-tax impact that changes in the fair value of derivatives designated as cash flow hedges had on accumulated other comprehensive loss and net income during the three and nine months ended September 30, 2018 and 2017 (in millions):

| Three Months Ended September 30, | Gain (Loss)<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive<br>Loss | Classification of Gain (Loss) | Recognized in Net Income  |  |
|----------------------------------|---|-------------------------------|---|--|
|                                  |   |                               | Gain (Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Loss into<br>Income | Total<br>Amount of<br>the Line Item<br>in the<br>Condensed<br>Consolidated<br>Statements of<br>Operations<br>Containing<br>Hedge Gains<br>(Losses) |
| 2018                             |   |                               |   |  |
| Foreign currency contracts       | \$ (0.1 )   | Cost of goods sold            | \$ (0.3 )   | \$ 1,741.0   |
| Interest rate swap contract      | 0.2   | Interest expense, net         | (0.5 )  | 7.0  |
| Total                            | \$ 0.1  |                               | \$ (0.8 )   |  |
| 2017                             |   |                               |   |  |
| Foreign currency contracts       | \$ (0.3 )   | Cost of goods sold            | \$ 1.1  | \$ 1,557.7   |
| Interest rate swap contract      | (1.0 )  | Interest expense, net         | (0.6 )  | 11.6   |
| Total                            | \$ (1.3 )   |                               | \$ 0.5  |  |

| Nine Months Ended September 30,           | Gain (Loss)<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive<br>Loss | Classification<br>of Gain (Loss) | Recognized in Net Income  |  |
|---|---|----------------------------------|---|--|
|   |   |                                  | Gain (Loss)<br>Reclassified<br>from<br>Accumulated<br>Other<br>Comprehensive<br>Loss into<br>Income | Total<br>Amount of<br>the Line Item<br>in the<br>Condensed<br>Consolidated<br>Statements of<br>Operations<br>Containing<br>Hedge Gains<br>(Losses) |
| 2018                                      |   |                                  |   |  |
| Foreign currency contracts <sup>(1)</sup> | \$ (1.3 )   | Cost of goods sold               | \$ (1.7 )   | \$ 5,301.8   |
| Interest rate swap contract               | (0.7 )  | Interest expense, net            | (1.8 )  | 38.5   |
| Total                                     | \$ (2.0 )   |                                  | \$ (3.5 )   |  |
| 2017                                      |   |                                  |   |  |
| Foreign currency contracts                | \$ 2.9  | Cost of goods sold               | \$ (0.3 )   | \$ 4,544.8   |
| Interest rate swap contract               | (0.6 )  | Interest expense, net            | (1.7 )  | 33.6   |
| Total                                     | \$ 2.3  |                                  | \$ (2.0 )   |  |

(1) The outstanding contracts as of September 30, 2018 range in maturity through January 2019.



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The following table summarizes the activity in accumulated other comprehensive loss related to the derivatives held by the Company during the nine months ended September 30, 2018 (in millions):

|   | Before-Tax<br>Amount | Income Tax | After-Tax<br>Amount |
|---|----------------------|------------|---------------------|
| Accumulated derivative net losses as of December 31, 2017                     | \$ (6.0 )            | \$ (1.3 )  | \$ (4.7 )           |
| Net changes in fair value of derivatives                                      | (2.4 )               | (0.4 )     | (2.0 )              |
| Net losses reclassified from accumulated other comprehensive loss into income | 3.7                  | 0.2        | 3.5                 |
| Accumulated derivative net losses as of September 30, 2018                    | \$ (4.7 )            | \$ (1.5 )  | \$ (3.2 )           |

## Fair Value Hedges

The Company uses interest rate swap agreements designated as fair value hedges to minimize exposure to changes in the fair value of fixed-rate debt that results from fluctuations in benchmark interest rates. During 2016, the Company terminated an interest rate swap transaction with a notional amount of \$300.0 million and received cash proceeds of approximately \$7.3 million. The resulting gain was deferred and was being amortized as a reduction to “Interest expense, net” over the remaining term of the Company’s 7.88% senior notes through December 1, 2021. During 2018, the remaining unamortized gain was recognized primarily through accelerated amortization due to the repurchase of the 5.75% senior notes as is more fully described in Note 5.

## Net Investment Hedges

The Company uses non-derivative and derivative instruments, to hedge a portion of its net investment in foreign operations against adverse movements in exchange rates. For instruments that are designated as hedges of net investments in foreign operations, changes in the fair value of the derivative instruments are recorded in foreign currency translation adjustments, a component of accumulated other comprehensive loss, to offset changes in the value of the net investments being hedged. When the net investment in foreign operations is sold or substantially liquidates, the amounts recorded in accumulated other comprehensive loss are reclassified to earnings. To the extent foreign currency denominated debt is de-designated from a net investment hedge relationship, changes in the value of the foreign currency denominated debt are recorded in earnings through the maturity date.

During 2015, the Company designated its €312.0 million (or approximately \$361.3 million as of September 30, 2018) term loan facility with a maturity date of June 26, 2020 as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. In October 2018, the Company repaid the term loan facility and the foreign currency denominated debt was de-designated as a net investment hedge. Refer to Note 5 for further information.

In January 2018, the Company entered into a cross currency swap contract as a hedge of its net investment in foreign operations to offset foreign currency translation gains or losses on the net investment. The cross currency swap has an expiration date of January 19, 2021. At maturity of the cross currency swap contract, the Company will deliver the notional amount of approximately €245.7 million (or approximately \$284.5 million as of September 30, 2018) and will receive \$300.0 million from the counterparties. The Company will receive quarterly interest payments from the counterparties based on a fixed interest rate until maturity of the cross currency swap.

The following table summarizes the notional values of the instrument designated as a net investment hedge (in millions):

Notional Amount as  
of



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September 30, 2018  
December 31, 2017

|                                   |         |          |
|-----------------------------------|---------|----------|
| Foreign currency denominated debt | \$361.3 | \$ 374.2 |
| Cross currency swap contract      | 300.0   | —        |

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The following table summarizes the after-tax impact of changes in the fair value of the instrument designated as a net investment hedge during the three and nine months ended September 30, 2018 and 2017 (in millions):

|                                   | Gain (Loss)<br>Recognized in<br>Accumulated<br>Other<br>Comprehensive Loss<br>for the Three Months<br>Ended |                       | Gain (Loss)<br>Recognized in<br>Accumulated<br>Other Comprehensive<br>Loss for the Nine<br>Months Ended |                       |
|-----------------------------------|---|-----------------------|---|-----------------------|
|                                   | September 30,<br>2018   | September 30,<br>2017 | September 30,<br>2018   | September 30,<br>2017 |
| Foreign currency denominated debt | \$ 1.9  | \$ (11.8 )            | \$ 12.8   | \$ (38.9 )            |
| Cross currency swap contract      | 0.1   | —                     | 11.7  | —                     |

## Derivative Transactions Not Designated as Hedging Instruments

During 2018 and 2017, the Company entered into foreign currency contracts to economically hedge receivables and payables on the Company and its subsidiaries' balance sheets that are denominated in foreign currencies other than the functional currency. These contracts were classified as non-designated derivative instruments. Gains and losses on such contracts are substantially offset by losses and gains on the remeasurement of the underlying asset or liability being hedged and are immediately recognized into earnings. As of September 30, 2018 and December 31, 2017, the Company had outstanding foreign currency contracts with a notional amount of approximately \$1,332.9 million and \$1,701.4 million, respectively.

The following table summarizes the impact that changes in the fair value of derivatives not designated as hedging instruments had on earnings (in millions):

| Classification of (Loss) Gain | For the Three Months<br>Ended |                       | For the Nine Months<br>Ended |                       |         |
|-------------------------------|-------------------------------|-----------------------|------------------------------|-----------------------|---------|
|                               | September 30,<br>2018         | September 30,<br>2017 | September 30,<br>2018        | September 30,<br>2017 |         |
| Foreign currency contracts    | Other expense, net            | \$ (0.8 )             | \$ 13.9                      | \$ 1.6                | \$ 35.8 |

The table below sets forth the fair value of derivative instruments as of September 30, 2018 (in millions):

|   | Asset Derivatives as of<br>September 30, 2018 |               | Liability Derivatives as of<br>September 30, 2018 |               |
|---|---|---------------|---|---------------|
|   | Balance Sheet<br>Location                     | Fair<br>Value | Balance Sheet<br>Location                         | Fair<br>Value |
| Derivative instruments designated as hedging instruments: |   |               |   |               |
| Foreign currency contracts                                | Other current assets                          | \$0.4         | Other current liabilities                         | \$1.4         |
| Interest rate swap contract                               | Other noncurrent assets                       | —             | Other noncurrent liabilities                      | 3.7           |
| Cross currency swap contract                              | Other noncurrent assets                       | 11.7          | Other noncurrent liabilities                      | —             |

Derivative instruments not designated as hedging instruments:

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|                              |                      |        |                           |        |
|------------------------------|----------------------|--------|---------------------------|--------|
| Foreign currency contracts   | Other current assets | 5.3    | Other current liabilities | 5.0    |
| Total derivative instruments |                      | \$17.4 |                           | \$10.1 |

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The table below sets forth the fair value of derivative instruments as of December 31, 2017 (in millions):

|  | Asset Derivatives as of<br>December 31, 2017 |               | Liability Derivatives as of<br>December 31, 2017 |               |
|--|--|---------------|--|---------------|
|  | Balance Sheet<br>Location                    | Fair<br>Value | Balance Sheet<br>Location                        | Fair<br>Value |
| Derivative instruments designated as hedging<br>instruments:     |  |               |  |               |
| Foreign currency contracts                                       | Other current assets                         | \$ —          | Other current liabilities                        | \$ 1.2        |
| Interest rate swap contract                                      | Other noncurrent<br>assets                   | —             | Other noncurrent<br>liabilities                  | 4.8           |
| Derivative instruments not designated as hedging<br>instruments: |  |               |  |               |
| Foreign currency contracts                                       | Other current assets                         | 7.8           | Other current liabilities                        | 11.0          |
| Total derivative instruments                                     |  | \$ 7.8        |  | \$ 17.0       |

## 11. CHANGES IN STOCKHOLDERS' EQUITY

The following table sets forth changes in stockholders' equity attributed to AGCO Corporation and its subsidiaries and to noncontrolling interests for the nine months ended September 30, 2018 (in millions):

|   | Common<br>Stock | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Loss | Noncontrolling<br>Interests | Total<br>Stockholders'<br>Equity |
|---|-----------------|----------------------------------|----------------------|---|-----------------------------|----------------------------------|
| Balance, December 31, 2017  | \$ 0.8          | \$ 136.6                         | \$ 4,253.8           | \$ (1,361.6 )                                 | \$ 65.7                     | \$ 3,095.3                       |
| Stock compensation  | —               | 33.0                             | —                    | —   | —                           | 33.0                             |
| Issuance of stock awards  | —               | (3.1 )                           | —                    | —   | —                           | (3.1 )                           |
| SSARs exercised   | —               | (0.4 )                           | —                    | —   | —                           | (0.4 )                           |
| Comprehensive income:   |                 |                                  |                      |   |                             |                                  |
| Net income (loss)   | —               | —                                | 186.8                | —   | (0.7 )                      | 186.1                            |
| Other comprehensive loss, net of<br>reclassification adjustments: |                 |                                  |                      |   |                             |                                  |
| Foreign currency translation adjustments                          | —               | —                                | —                    | (230.8 )                                      | (3.0 )                      | (233.8 )                         |
| Defined benefit pension plans, net of tax                         | —               | —                                | —                    | 9.0   | —                           | 9.0                              |
| Unrealized loss on derivatives, net of tax                        | —               | —                                | —                    | 1.5   | —                           | 1.5                              |
| Payment of dividends to stockholders                              | —               | —                                | (35.6 )              | —   | —                           | (35.6 )                          |
| Purchases and retirement of common stock                          | —               | (84.3 )                          | —                    | —   | —                           | (84.3 )                          |
| Investment by or distribution to<br>noncontrolling interests, net | —               | —                                | —                    | —   | 0.8                         | 0.8                              |
| Adjustment related to the adoption of ASU<br>2014-09              | —               | —                                | 0.4                  | —   | —                           | 0.4                              |
| Balance, September 30, 2018                                       | \$ 0.8          | \$ 81.8                          | \$ 4,405.4           | \$ (1,581.9 )                                 | \$ 62.8                     | \$ 2,968.9                       |

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Total comprehensive (loss) income attributable to noncontrolling interests for the three and nine months ended September 30, 2018 and 2017 was as follows (in millions):

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 |       | Nine<br>Months<br>Ended<br>September<br>30,<br>2017 |       |
|--|--|-------|---|-------|
| Net (loss) income                        | \$(0.4)  | \$0.1 | \$(0.7)   | \$2.1 |
| Other comprehensive (loss) income:       |  |       |   |       |
| Foreign currency translation adjustments | (0.9 )   | 0.5   | (3.0 )  | 1.1   |
| Total comprehensive (loss) income        | \$(1.3)  | \$0.6 | \$(3.7)   | \$3.2 |

The following table sets forth changes in accumulated other comprehensive loss by component, net of tax, attributed to AGCO Corporation and its subsidiaries for the nine months ended September 30, 2018 (in millions):

|  | Defined<br>Benefit<br>Pension<br>Plans | Deferred<br>Net<br>(Losses)<br>Gains on<br>Derivatives | Cumulative<br>Translation<br>Adjustment | Total       |
|--|--|--|---|-------------|
| Accumulated other comprehensive loss, December 31, 2017                | \$(285.1)                              | \$ (4.7 )  | \$(1,071.8 )                            | \$(1,361.6) |
| Other comprehensive loss before reclassifications                      | —                                      | (2.0 )   | (230.8 )                                | (232.8 )    |
| Net losses reclassified from accumulated other comprehensive loss      | 9.0                                    | 3.5  | —                                       | 12.5        |
| Other comprehensive income (loss), net of reclassification adjustments | 9.0                                    | 1.5  | (230.8 )                                | (220.3 )    |
| Accumulated other comprehensive loss, September 30, 2018               | \$(276.1)                              | \$ (3.2 )  | \$(1,302.6 )                            | \$(1,581.9) |

The following table sets forth reclassification adjustments out of accumulated other comprehensive loss by component attributed to AGCO Corporation and its subsidiaries for the three months ended September 30, 2018 and 2017 (in millions):

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|  | Amount<br>Reclassified from<br>Accumulated<br>Other<br>Comprehensive<br>Loss | Three<br>Months<br>Ended<br>September<br>30,<br>2018 <sup>(1)</sup> | Three<br>Months<br>Ended<br>September<br>30, 2017 <sup>(1)</sup> | Affected Line Item within the Condensed<br>Consolidated<br>Statements of Operations |
|--|--|---|--|---|
| Details about Accumulated Other Comprehensive<br>Loss Components     |  |   |  |   |
| Derivatives:   |  |   |  |   |
| Net losses (gains) on foreign currency contracts                     | \$ 0.4   |   | \$ (0.9)   | ) Cost of goods sold  |
| Net losses on interest rate swap contract                            | 0.5  |   | 0.6  | ) Interest expense, net   |
| Reclassification before tax  | 0.9  |   | (0.3)  | )   |
|  | (0.1)  |   | (0.2)  | ) Income tax provision  |
| Reclassification net of tax  | \$ 0.8   |   | \$ (0.5)   | )   |
| Defined benefit pension plans:                                       |  |   |  |   |
| Amortization of net actuarial losses                                 | \$ 3.0   |   | \$ 3.2   | (2)   |
| Amortization of prior service cost                                   | 0.3  |   | 0.3  | (2)   |
| Reclassification before tax  | 3.3  |   | 3.5  |   |
|  | (0.4)  |   | (0.4)  | ) Income tax provision  |
| Reclassification net of tax  | \$ 2.9   |   | \$ 3.1   |   |
| Net losses reclassified from accumulated other<br>comprehensive loss | \$ 3.7   |   | \$ 2.6   |   |

(1) Losses (gains) included within the Condensed Consolidated Statements of Operations for the three months ended September 30, 2018 and 2017.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension and postretirement benefit cost. See Note 13 to the Company's Condensed Consolidated Financial Statements.

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The following table sets forth reclassification adjustments out of accumulated other comprehensive loss by component attributed to AGCO Corporation and its subsidiaries for the nine months ended September 30, 2018 and 2017 (in millions):

| Details about Accumulated Other Comprehensive Loss Components     | Amount<br>Reclassified from<br>Accumulated Other<br>Comprehensive<br>Loss |   | Affected Line Item within the Condensed<br>Consolidated<br>Statements of Operations |
|---|---|---|---|
|   | Nine<br>months<br>ended<br>September<br>30,<br>2018 <sup>(1)</sup>        | Nine<br>months<br>ended<br>September<br>30, 2017 <sup>(1)</sup> |   |
| Derivatives:  |   |   |   |
| Net losses on foreign currency contracts                          | \$ 1.9  | \$ 0.6  | Cost of goods sold  |
| Net losses on interest rate swap contract                         | 1.8   | 1.7   | Interest expense, net   |
| Reclassification before tax                                       | 3.7   | 2.3   |   |
|   | (0.2 )  | (0.3 )  | Income tax provision  |
| Reclassification net of tax                                       | \$ 3.5  | \$ 2.0  |   |
| Defined benefit pension plans:                                    |   |   |   |
| Amortization of net actuarial losses                              | \$ 9.3  | \$ 9.3  | (2)   |
| Amortization of prior service cost                                | 1.0   | 1.0   | (2)   |
| Reclassification before tax                                       | 10.3  | 10.3  |   |
|   | (1.3 )  | (1.4 )  | Income tax provision  |
| Reclassification net of tax                                       | \$ 9.0  | \$ 8.9  |   |
| Net losses reclassified from accumulated other comprehensive loss | \$ 12.5   | \$ 10.9   |   |

(1) Losses included within the Condensed Consolidated Statements of Operations for the nine months ended September 30, 2018 and 2017.

(2) These accumulated other comprehensive loss components are included in the computation of net periodic pension and postretirement benefit cost. See Note 13 to the Company's Condensed Consolidated Financial Statements.

## Share Repurchase Program

During the nine months ended September 30, 2018, through open market transactions, the Company repurchased 534,403 shares of its common stock for approximately \$34.3 million at an average price paid of \$64.14 per share. Repurchased shares were retired on the date of purchase, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Condensed Consolidated Balance Sheets. During the three months ended September 30, 2018, the Company entered into an accelerated share repurchase ("ASR") agreement with a financial institution to repurchase an aggregate of \$50.0 million of shares of the Company's common stock. The Company received approximately 638,978 shares during the three months ended September 30, 2018 related to the ASR agreement. The specific number of shares the Company ultimately repurchased was determined at

the completion of the term of the ASR based on the daily volume-weighted average share price of the Company's common stock less an agreed upon discount. Upon settlement of the ASR, the Company was entitled to receive additional shares of common stock or, under certain circumstances, was required to remit a settlement amount. In October 2018, the Company received an additional 197,848 shares of common stock upon final settlement of the ASR. All shares received under the ASR were retired upon receipt, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within the Company's Condensed Consolidated Balance Sheets. As of September 30, 2018, the remaining amount authorized to be repurchased was approximately \$247.1 million, of which \$215.7 million expires in December 2019 and \$31.4 million has no expiration date.



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## 12. ACCOUNTS RECEIVABLE SALES AGREEMENTS

The Company has accounts receivable sales agreements that permit the sale, on an ongoing basis, of a majority of its wholesale receivables in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures. As of both September 30, 2018 and December 31, 2017, the cash received from receivables sold under the U.S., Canadian, European and Brazilian accounts receivable sales agreements was approximately \$1.3 billion.

Under the terms of the accounts receivable agreements in North America, Europe and Brazil, the Company pays an annual servicing fee related to the servicing of the receivables sold. The Company also pays the respective AGCO Finance entities a subsidized interest payment with respect to the sales agreements, calculated based upon LIBOR plus a margin on any non-interest bearing accounts receivable outstanding and sold under the sales agreements. These fees were reflected within losses on the sales of receivables included within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. The Company reviewed its accounting for the accounts receivable sales agreements and determined that these facilities should be accounted for as off-balance sheet transactions.

Losses on sales of receivables associated with the accounts receivable financing facilities discussed above, reflected within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations, were approximately \$6.7 million and \$24.2 million, respectively, during the three and nine months ended September 30, 2018. Losses on sales of receivables associated with the accounts receivable financing facilities discussed above, reflected within "Other expense, net" in the Company's Condensed Consolidated Statements of Operations, were approximately \$10.3 million and \$27.5 million, respectively, during the three and nine months ended September 30, 2017.

The Company's finance joint ventures in Europe, Brazil and Australia also provide wholesale financing directly to the Company's dealers. The receivables associated with these arrangements are without recourse to the Company. The Company does not service the receivables after the sale occurs and does not maintain any direct retained interest in the receivables. As of September 30, 2018 and December 31, 2017, these finance joint ventures had approximately \$50.3 million and \$41.6 million, respectively, of outstanding accounts receivable associated with these arrangements. The Company reviewed its accounting for these arrangements and determined that these arrangements should be accounted for as off-balance sheet transactions.

In addition, the Company sells certain trade receivables under factoring arrangements to other financial institutions around the world. The Company reviewed the sale of such receivables and determined that these arrangements should be accounted for as off-balance sheet transactions.

## 13. EMPLOYEE BENEFIT PLANS

Net periodic pension and postretirement benefit cost for the Company's defined pension and postretirement benefit plans for the three months ended September 30, 2018 and 2017 are set forth below (in millions):

|                  | Three<br>Months<br>Ended<br>September<br>30, |       |
|------------------|--|-------|
|                  | 2018   | 2017  |
| Pension benefits |  |       |
| Service cost     | \$4.7  | \$4.2 |
| Interest cost    | 4.9  | 5.1   |

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|  |           |        |
|--|-----------|--------|
| Expected return on plan assets           | (9.0 )    | (8.9 ) |
| Amortization of net actuarial losses     | 3.0       | 3.2    |
| Amortization of prior service cost       | 0.3       | 0.3    |
| Net periodic pension cost                | \$3.9     | \$3.9  |
|  | Three     |        |
|  | Months    |        |
|  | Ended     |        |
|  | September |        |
|  | 30,       |        |
| Postretirement benefits                  | 2018      | 2017   |
| Interest cost                            | \$0.4     | \$0.4  |
| Net periodic postretirement benefit cost | \$0.4     | \$0.4  |

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Net periodic pension and postretirement benefit cost for the Company's defined pension and postretirement benefit plans for the nine months ended September 30, 2018 and 2017 are set forth below (in millions):

|                                      | Nine Months<br>Ended<br>September 30, |         |
|--------------------------------------|---------------------------------------|---------|
|                                      | 2018                                  | 2017    |
| Pension benefits                     |                                       |         |
| Service cost                         | \$14.4                                | \$12.8  |
| Interest cost                        | 15.1                                  | 15.3    |
| Expected return on plan assets       | (27.7 )                               | (26.7 ) |
| Amortization of net actuarial losses | 9.2                                   | 9.3     |
| Amortization of prior service cost   | 0.9                                   | 0.9     |
| Net periodic pension cost            | \$11.9                                | \$11.6  |

|  | Nine<br>Months<br>Ended<br>September<br>30, |       |
|--|---|-------|
|  | 2018  | 2017  |
| Postretirement benefits                  |   |       |
| Service cost                             | \$0.1                                       | \$0.1 |
| Interest cost                            | 1.1   | 1.2   |
| Amortization of net actuarial losses     | 0.1   | —     |
| Amortization of prior service cost       | 0.1   | 0.1   |
| Net periodic postretirement benefit cost | \$1.4                                       | \$1.4 |

The components of net periodic pension and postretirement benefits cost, other than the service cost component, are included in "Other expense, net" in the Company's Condensed Consolidated Statements of Operations. Refer to Note 1 for further information.

The following table summarizes the activity in accumulated other comprehensive loss related to the Company's defined pension and postretirement benefit plans during the nine months ended September 30, 2018 (in millions):

|   | Before-Tax<br>Amount | Income<br>Tax | After-Tax<br>Amount |
|---|----------------------|---------------|---------------------|
| Accumulated other comprehensive loss as of December 31, 2017  | \$ (380.6 )          | \$(95.5)      | \$(285.1 )          |
| Amortization of net actuarial losses                          | 9.3                  | 1.3           | 8.0                 |
| Amortization of prior service cost                            | 1.0                  | —             | 1.0                 |
| Accumulated other comprehensive loss as of September 30, 2018 | \$ (370.3 )          | \$(94.2)      | \$(276.1 )          |

During the nine months ended September 30, 2018, approximately \$28.6 million of contributions had been made to the Company's defined pension benefit plans. The Company currently estimates its minimum contributions for 2018 to its defined pension benefit plans will aggregate approximately \$35.9 million.

During the nine months ended September 30, 2018, the Company made approximately \$1.1 million of contributions to its postretirement health care and life insurance benefit plans. The Company currently estimates that it will make approximately \$1.6 million of contributions to its postretirement health care and life insurance benefit plans during 2018.



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## 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company categorizes its assets and liabilities into one of three levels based on the assumptions used in valuing the asset or liability. Estimates of fair value for financial assets and liabilities are based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. In accordance with this guidance, fair value measurements are classified under the following hierarchy:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; and model-derived valuations in which all significant inputs are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Model-derived valuations in which one or more significant inputs are unobservable.

The Company categorizes its pension plan assets into one of the three levels of the fair value hierarchy.

The Company enters into foreign currency, interest rate swap and cross currency swap contracts. The fair values of the Company's derivative instruments are determined using discounted cash flow valuation models. The significant inputs used in these models are readily available in public markets, or can be derived from observable market transactions, and therefore have been classified as Level 2. Inputs used in these discounted cash flow valuation models for derivative instruments include the applicable exchange rates, forward rates or interest rates. Such models used for option contracts also use implied volatility. See Note 10 for a discussion of the Company's derivative instruments and hedging activities.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 are summarized below (in millions):

|                        | As of September<br>30, 2018 |         |         |
|------------------------|-----------------------------|---------|---------|
|                        | Level 1                     | Level 2 | Level 3 |
|                        | Total                       |         |         |
| Derivative assets      | \$17.4                      | \$      | \$      |
| Derivative liabilities | \$10.1                      | \$      | \$      |

|                        | As of December<br>31, 2017 |         |         |
|------------------------|----------------------------|---------|---------|
|                        | Level 1                    | Level 2 | Level 3 |
|                        | Total                      |         |         |
| Derivative assets      | \$7.8                      | \$      | \$      |
| Derivative liabilities | \$17.0                     | \$      | \$      |

Short-term borrowings are valued at their carrying amounts in the Company's Condensed Consolidated Balance Sheets, due to the short-term nature of these financial instruments.

The carrying amounts of long-term debt under the Company's 1.056% senior term loan, credit facility, senior term loans due 2021 and senior term loans due between 2019 and 2028 (Note 5) approximate fair value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities.

At September 30, 2018 and December 31, 2017, the estimated fair value of the Company's 5/8% senior notes (Note 5), based on their listed market values, was approximately \$119.8 million and \$324.7 million, respectively, compared to its carrying value of \$115.8 million and \$305.3 million, respectively.

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## 15. SEGMENT REPORTING

The Company's four reportable segments distribute a full range of agricultural equipment and related replacement parts. The Company evaluates segment performance primarily based on income from operations. Sales for each segment are based on the location of the third-party customer. The Company's selling, general and administrative expenses and engineering expenses are charged to each segment based on the region and division where the expenses are incurred. As a result, the components of income from operations for one segment may not be comparable to another segment. Segment results for the three and nine months ended September 30, 2018 and 2017 and assets as of September 30, 2018 and December 31, 2017 based on the Company's reportable segments are as follows (in millions):

| Three Months Ended September 30, | North<br>America | South<br>America | Europe/<br>Middle<br>East | Asia/<br>Pacific/Africa | Consolidated |
|----------------------------------|------------------|------------------|---------------------------|-------------------------|--------------|
| 2018                             |                  |                  |                           |                         |              |
| Net sales                        | \$ 545.5         | \$ 281.1         | \$ 1,164.5                | \$ 223.6                | \$ 2,214.7   |
| Income from operations           | 32.5             | 12.6             | 108.6                     | 17.6                    | 171.3        |
| Depreciation                     | 17.4             | 7.2              | 26.4                      | 4.0                     | 55.0         |
| Capital expenditures             | 8.6              | 7.0              | 30.3                      | 2.8                     | 48.7         |
| 2017                             |                  |                  |                           |                         |              |
| Net sales                        | \$ 483.5         | \$ 273.5         | \$ 1,017.7                | \$ 211.6                | \$ 1,986.3   |
| Income from operations           | 27.8             | 9.3              | 96.9                      | 15.4                    | 149.4        |
| Depreciation                     | 15.5             | 8.0              | 26.7                      | 6.1                     | 56.3         |
| Capital expenditures             | 12.1             | 10.9             | 22.8                      | 1.3                     | 47.1         |
| Nine Months Ended September 30,  | North<br>America | South<br>America | Europe/<br>Middle<br>East | Asia/<br>Pacific/Africa | Consolidated |
| 2018                             |                  |                  |                           |                         |              |
| Net sales                        | \$ 1,648.9       | \$ 682.8         | \$ 3,873.4                | \$ 554.7                | \$ 6,759.8   |
| Income (loss) from operations    | 96.9             | (20.7 )          | 416.1                     | 26.9                    | 519.2        |
| Depreciation                     | 51.4             | 22.5             | 84.8                      | 11.4                    | 170.1        |
| Capital expenditures             | 30.8             | 21.2             | 79.7                      | 6.8                     | 138.5        |
| 2017                             |                  |                  |                           |                         |              |
| Net sales                        | \$ 1,344.9       | \$ 747.6         | \$ 3,179.7                | \$ 506.9                | \$ 5,779.1   |
| Income from operations           | 54.4             | 14.5             | 330.7                     | 23.2                    | 422.8        |
| Depreciation                     | 45.4             | 22.7             | 83.4                      | 13.7                    | 165.2        |
| Capital expenditures             | 43.2             | 31.0             | 59.3                      | 5.9                     | 139.4        |
| Assets                           |                  |                  |                           |                         |              |
| As of September 30, 2018         | \$ 1,124.7       | \$ 730.9         | \$ 2,111.8                | \$ 508.8                | \$ 4,476.2   |
| As of December 31, 2017          | \$ 1,064.1       | \$ 752.1         | \$ 2,074.4                | \$ 499.4                | \$ 4,390.0   |

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A reconciliation from the segment information to the consolidated balances for income from operations and total assets is set forth below (in millions):

|  | Three Months  |          | Nine Months   |            |
|--|---------------|----------|---------------|------------|
|  | Ended         |          | Ended         |            |
|  | September 30, |          | September 30, |            |
|  | 2018          | 2017     | 2018          | 2017       |
| Segment income from operations                           | \$ 171.3      | \$ 149.4 | \$ 519.2      | \$ 422.8   |
| Corporate expenses                                       | (33.5 )       | (27.1 )  | (99.4 )       | (82.6 )    |
| Stock compensation expense                               | (9.7 )        | (7.9 )   | (30.6 )       | (29.1 )    |
| Restructuring expenses                                   | (1.5 )        | (3.0 )   | (10.1 )       | (8.5 )     |
| Amortization of intangibles                              | (15.3 )       | (14.3 )  | (49.2 )       | (41.5 )    |
| Consolidated income from operations                      | \$ 111.3      | \$ 97.1  | \$ 329.9      | \$ 261.1   |
|  |               |          | September     | December   |
|  |               |          | 30, 2018      | 31, 2017   |
| Segment assets   |               |          | \$ 4,476.2    | \$ 4,390.0 |
| Cash and cash equivalents                                |               |          | 292.7         | 367.7      |
| Investments in affiliates                                |               |          | 419.2         | 409.0      |
| Deferred tax assets, other current and noncurrent assets |               |          | 643.8         | 614.6      |
| Intangible assets, net                                   |               |          | 590.8         | 649.0      |
| Goodwill   |               |          | 1,494.4       | 1,541.4    |
| Consolidated total assets                                |               |          | \$ 7,917.1    | \$ 7,971.7 |

## 16. COMMITMENTS AND CONTINGENCIES

## Off-Balance Sheet Arrangements

## Guarantees

The Company maintains a remarketing agreement with its U.S. finance joint venture, whereby the Company is obligated to repurchase repossessed inventory at market values. The Company has an agreement with its U.S. finance joint venture, AGCO Finance LLC, which limits the Company's purchase obligations under this arrangement to \$6.0 million in the aggregate per calendar year. The Company believes that any losses that might be incurred on the resale of this equipment will not materially impact the Company's financial position or results of operations due to the fair value of the underlying equipment.

At September 30, 2018, the Company has outstanding guarantees of indebtedness owed to third parties of approximately \$28.9 million, primarily related to dealer and end-user financing of equipment. Such guarantees generally obligate the Company to repay outstanding finance obligations owed to financial institutions if dealers or end users default on such loans through 2022. The Company believes the credit risk associated with these guarantees is not material to its financial position or results of operations. Losses under such guarantees historically have been insignificant. In addition, the Company generally would expect to be able to recover a significant portion of the amounts paid under such guarantees from the sale of the underlying financed farm equipment, as the fair value of such equipment is expected to be sufficient to offset a substantial portion of the amounts paid. In addition, at September 30, 2018, the Company had accrued approximately \$12.1 million of outstanding guarantees of minimum residual values that may be owed to its finance joint ventures in the United States and Canada due upon expiration of certain eligible



operating leases between the finance joint ventures and end users.

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Other

The Company sells a majority of its wholesale receivables in North America, Europe and Brazil to its U.S., Canadian, European and Brazilian finance joint ventures. The Company also sells certain accounts receivable under factoring arrangements to financial institutions around the world. The Company reviewed the sale of such receivables and determined that these facilities should be accounted for as off-balance sheet transactions.

Legal Claims and Other Matters

The Environmental Protection Agency (“EPA”) of Victoria, Australia issued a notice to the Company’s Australian subsidiary regarding remediation of contamination of a property located in a suburb of Melbourne, Australia. The property was owned and divested by the subsidiary before the subsidiary was acquired by the Company. The Australian subsidiary is in correspondence with the EPA concerning the notice. The notice was voluntarily withdrawn by the EPA in March 2018, but may be refiled in the future.

In August 2008, as part of routine audits, the Brazilian taxing authorities disallowed deductions relating to the amortization of certain goodwill recognized in connection with a reorganization of the Company’s Brazilian operations and the related transfer of certain assets to the Company’s Brazilian subsidiaries. The amount of the tax disallowance through September 30, 2018, not including interest and penalties, was approximately 131.5 million Brazilian reais (or approximately \$32.9 million). The amount ultimately in dispute will be greater because of interest and penalties. The Company has been advised by its legal and tax advisors that its position with respect to the deductions is allowable under the tax laws of Brazil. The Company is contesting the disallowance and believes that it is not likely that the assessment, interest or penalties will be required to be paid. However, the ultimate outcome will not be determined until the Brazilian tax appeal process is complete, which could take several years.

The Company is a party to various other legal claims and actions incidental to its business. The Company believes that none of these claims or actions, either individually or in the aggregate, is material to its business or financial statements as a whole, including its results of operations and financial condition.

17. REVENUE

Revenue is recognized when the Company satisfies the performance obligation by transferring control over goods or services to a dealer, distributor or other customer. The amount of revenue recognized is measured as the consideration the Company expects to receive in exchange for those goods or services pursuant to a contract with the customer. A contract exists once the Company receives and accepts a purchase order under a dealer sales agreement, or once the Company enters into a contract with an end user. The Company does not recognize revenue in cases where collectability is not probable, and defers the recognition until collection is probable or payment is received.

The Company generates revenue from the manufacture and distribution of agricultural equipment and replacement parts. Sales of equipment and replacement parts, which represents a majority of the Company’s net sales, are recorded by the Company at the point in time when title and control have been transferred to an independent dealer, distributor or other customer. Title generally passes to the dealer or distributor upon shipment or specified delivery, and the risk of loss upon damage, theft or destruction of the equipment is the responsibility of the dealer, distributor or designated third-party carrier. The Company believes control passes and the performance obligation is satisfied at the point of the stated shipping or delivery term with respect to such sales.

The amount of consideration the Company receives and the revenue recognized varies with certain sales incentives the Company offers to dealers and distributors. Estimates for sales incentives are made at the time of sale for existing incentive programs using the expected value method. These estimates are revised in the event of subsequent modification to the incentive program.

Dealers or distributors may not return equipment or replacement parts while its contract with the Company is in force, except for under established promotional and annual replacement parts return programs. At the time of sale, the Company estimates the amount of returns based on the terms of promotional and annual return programs and anticipated returns in the future.

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Sales and other related taxes are excluded from the transaction price. Shipping and handling costs associated with freight are accounted for as fulfillment costs and are expensed at the time revenue is recognized in “Cost of goods sold” and “Selling, general and administrative expenses” in the Company’s Condensed Consolidated Statements of Operations.

The Company applied the practical expedient in ASU 2014-09 to not adjust the amount of revenue to be recognized under a contract with a dealer, distributor or other customer for the time value of money when the difference between the receipt of payment and the recognition of revenue is less than one year.

Although, substantially all revenue is recognized at a point in time, a relatively insignificant amount of installation revenue associated with the sale of grain storage and protein production systems is recognized on an “over time” basis as discussed below. The Company also recognizes revenue “over time” with respect to extended warranty or maintenance contracts and certain technology services. Generally, all of the contracts with customers that relate to “over time” revenue recognition have contract durations of less than 12 months.

**Grain Storage and Protein Production Systems Installation Revenue.** In certain countries, the Company sells grain storage and protein production systems where the Company is responsible for construction and installation, and the sale is contingent upon customer acceptance. Under these conditions, the revenues are recognized over the term of the contract when the Company can objectively determine control has been transferred to the customer in accordance with agreed-upon specifications in the contract. For these contracts, the Company may be entitled to receive an advance payment, which is recognized as a contract liability for the amount in excess of the revenue recognized. The Company uses the input method using costs incurred to date relative to total estimated costs at completion to measure the progress toward satisfaction of the performance obligation. Revenues are recorded proportionally as costs are incurred. Costs include labor, material and overhead. The estimation of the progress toward completion is subject to various assumptions. As part of the estimation process, the Company reviews the length of time to complete the performance obligation, the cost of materials and labor productivity. If a significant change in one of the assumptions occurs, then the Company will recognize an adjustment under the cumulative catch-up method and the impact of the adjustment on the revenue recorded to date is recognized in the period the adjustment is identified.

**Extended Warranty Contracts.** The Company sells separately priced extended warranty contracts, which extends coverage beyond the base warranty period. Revenue is recognized for the extended warranty contract on a straight-line basis, which the Company believes approximates the costs expected to be incurred in satisfying the obligations, over the extended warranty period. The extended warranty period ranges from one to five years. Payment is received at the inception of the extended warranty contract, which is recognized as a contract liability for the amount in excess of the revenue recognized. The revenue associated with the sale of extended warranty contracts is insignificant.

**Technology Services Revenue.** The Company sells a combination of technology products and services. When the bundled package of technology products and services is sold, the portion of the consideration received related to the services component is recognized over time as the Company satisfies the future performance obligation. Revenue is recognized for the hardware component when control is transferred to the dealer or distributor. The revenue associated with the sale of technology services is insignificant.

**Contract Assets and Liabilities**

Contract assets relate to the Company’s right to recover returned replacement parts. When the refund for the returned replacement part is settled with the dealer or distributor, the contract asset is then transferred to inventory. Contract liabilities relate to the following: (1) the obligation to refund dealers or distributors for the expected return of

replacement parts, (2) unrecognized revenues where advance payment of consideration precedes the Company's performance with respect to extended warranty contracts and where the performance obligation is satisfied over time, (3) unrecognized revenues where advance payment of consideration precedes the Company's performance with respect to certain grain storage and protein production systems and where the performance obligation is satisfied over time and (4) unrecognized revenues where advance payment consideration precedes the Company's performance with respect to technology services and where the performance obligation is satisfied over time.

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Significant changes in the balance of contract assets and liabilities for the three and nine months ended as of September 30, 2018 were as follows (in millions):

## Contract Assets

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30, 2018 <sup>(1)</sup> |
|--|--|---|
| Balance at beginning of period   | \$11.3   | \$ 10.1   |
| Additions for expected returns of replacement parts sold during the period | 4.6  | 15.0  |
| Transfer of returned replacement parts to inventory                        | (4.7 )   | (13.8 )   |
| Foreign currency translation   | —  | (0.1 )  |
| Balance as of September 30, 2018   | \$11.2   | \$ 11.2   |

## Contract Liabilities

|  | Three<br>Months<br>Ended<br>September<br>30,<br>2018 | Nine<br>Months<br>Ended<br>September<br>30, 2018 <sup>(1)</sup> |
|--|--|---|
| Balance at beginning of period   | \$101.9  | \$ 104.4  |
| Advance consideration received   | 43.0   | 100.9   |
| Accrual for expected reimbursement of replacement parts sold during the period                               | 11.7   | 36.2  |
| Revenue recognized during the period for extended warranty contracts   | (7.2 )   | (19.9 )   |
| Revenue recognized during the period related to installation of grain storage and protein production systems | (32.3 )  | (80.9 )   |
| Replacement part settlements made during the period  | (11.8 )  | (33.9 )   |
| Foreign currency translation   | (0.5 )   | (2.0 )  |
| Balance as of September 30, 2018   | \$104.8  | \$ 104.8  |

(1) The beginning of the period is from the date of adoption of ASU 2014-09 or January 1, 2018.

The contract assets are classified as “Other current assets” and the contract liabilities are classified as either “Other current and noncurrent liabilities” or “Accrued expenses” in the Company’s Condensed Consolidated Balance Sheets.

## Remaining Performance Obligations

The estimated revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018 are \$28.8 million in 2018, \$20.7 million in 2019, \$11.6 million in 2020, \$5.9 million in 2021 and \$1.8 million thereafter, and relate primarily to extended warranty contracts. The Company applied the practical expedient in ASU 2014-09 and has not disclosed information about remaining performance obligations that have original expected durations of 12 months or less.



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## Disaggregated Revenue

Net sales for the three months ended September 30, 2018 disaggregated by primary geographical markets and major products consisted of the following (in millions):

|  | North<br>America | South<br>America <sup>(1)</sup> | Europe/Middle<br>East <sup>(1)</sup> | Asia/Pacific/Africa <sup>(1)</sup> | Consolidated |
|--|------------------|---------------------------------|--------------------------------------|------------------------------------|--------------|
| Primary geographical markets:                |                  |                                 |                                      |                                    |              |
| United States                                | \$ 430.6         | \$ —                            | \$ —                                 | \$ —                               | \$ 430.6     |
| Canada                                       | 82.3             | —                               | —                                    | —                                  | 82.3         |
| South America                                | —                | 275.8                           | —                                    | —                                  | 275.8        |
| Germany                                      | —                | —                               | 273.0                                | —                                  | 273.0        |
| France                                       | —                | —                               | 198.1                                | —                                  | 198.1        |
| United Kingdom and Ireland                   | —                | —                               | 140.4                                | —                                  | 140.4        |
| Finland and Scandinavia                      | —                | —                               | 172.8                                | —                                  | 172.8        |
| Other Europe                                 | —                | —                               | 375.7                                | —                                  | 375.7        |
| Middle East and Algeria                      | —                | —                               | 4.5                                  | —                                  | 4.5          |
| Africa                                       | —                | —                               | —                                    | 32.0                               | 32.0         |
| Asia   | —                | —                               | —                                    | 104.4                              | 104.4        |
| Australia and New Zealand                    | —                | —                               | —                                    | 87.2                               | 87.2         |
| Mexico, Central America and Caribbean        | 32.6             | 5.3                             | —                                    | —                                  | 37.9         |
|  | \$ 545.5         | \$ 281.1                        | \$ 1,164.5                           | \$ 223.6                           | \$ 2,214.7   |
| Major products:                              |                  |                                 |                                      |                                    |              |
| Tractors                                     | \$ 168.3         | \$ 174.3                        | \$ 775.5                             | \$ 91.4                            | \$ 1,209.5   |
| Replacement parts                            | 79.0             | 23.7                            | 224.7                                | 19.1                               | 346.5        |
| Grain storage and protein production systems | 168.2            | 20.8                            | 56.8                                 | 72.0                               | 317.8        |
| Combines                                     | 21.0             | 23.5                            | 36.0                                 | 4.6                                | 85.1         |
| Application equipment                        | 37.9             | 14.2                            | 4.8                                  | 2.7                                | 59.6         |
| Other machinery                              | 71.1             | 24.5                            | 66.9                                 | 33.7                               | 196.2        |
|  | \$ 545.5         | \$ 281.1                        | \$ 1,164.5                           | \$ 223.6                           | \$ 2,214.7   |

(1) Rounding may impact summation of amounts.



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(unaudited)

Net sales for the nine months ended September 30, 2018 disaggregated by primary geographical markets and major products consisted of the following (in millions):

|  | North<br>America | South<br>America <sup>(1)</sup> | Europe/Middle<br>East <sup>(1)</sup> | Asia/Pacific/Africa | Consolidated |
|--|------------------|---------------------------------|--------------------------------------|---------------------|--------------|
| Primary geographical markets:                |                  |                                 |                                      |                     |              |
| United States                                | \$ 1,298.1       | \$ —                            | \$ —                                 | \$ —                | \$ 1,298.1   |
| Canada                                       | 257.2            | —                               | —                                    | —                   | 257.2        |
| South America                                | —                | 670.0                           | —                                    | —                   | 670.0        |
| Germany                                      | —                | —                               | 950.6                                | —                   | 950.6        |
| France                                       | —                | —                               | 644.9                                | —                   | 644.9        |
| United Kingdom and Ireland                   | —                | —                               | 453.5                                | —                   | 453.5        |
| Finland and Scandinavia                      | —                | —                               | 581.6                                | —                   | 581.6        |
| Other Europe                                 | —                | —                               | 1,228.9                              | —                   | 1,228.9      |
| Middle East and Algeria                      | —                | —                               | 13.9                                 | —                   | 13.9         |
| Africa                                       | —                | —                               | —                                    | 76.2                | 76.2         |
| Asia   | —                | —                               | —                                    | 266.0               | 266.0        |
| Australia and New Zealand                    | —                | —                               | —                                    | 212.5               | 212.5        |
| Mexico, Central America and Caribbean        | 93.6             | 12.8                            | —                                    | —                   | 106.4        |
|  | \$ 1,648.9       | \$ 682.8                        | \$ 3,873.4                           | \$ 554.7            | \$ 6,759.8   |
| Major products:                              |                  |                                 |                                      |                     |              |
| Tractors                                     | \$ 496.6         | \$ 429.3                        | \$ 2,603.4                           | \$ 240.8            | \$ 3,770.1   |
| Replacement parts                            | 237.5            | 67.3                            | 687.9                                | 54.7                | 1,047.4      |
| Grain storage and protein production systems | 450.1            | 50.2                            | 149.6                                | 176.1               | 826.0        |
| Combines                                     | 48.7             | 63.6                            | 109.1                                | 7.2                 | 228.6        |
| Application equipment                        | 146.0            | 25.2                            | 14.1                                 | 13.7                | 199.0        |
| Other machinery                              | 270.0            | 47.1                            | 309.4                                | 62.2                | 688.7        |
|  | \$ 1,648.9       | \$ 682.8                        | \$ 3,873.4                           | \$ 554.7            | \$ 6,759.8   |

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(1) Rounding may impact summation of amounts.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

Our operations are subject to the cyclical nature of the agricultural industry. Sales of our equipment are affected by changes in net cash farm income, farm land values, weather conditions, the demand for agricultural commodities, commodity prices and general economic conditions. We record sales when we sell equipment and replacement parts to our independent dealers, distributors and other customers. To the extent possible, we attempt to sell products to our dealers and distributors on a level basis throughout the year to reduce the effect of seasonal demands on manufacturing operations and to minimize our investment in inventories. However, retail sales by dealers to farmers are highly seasonal and are a function of the timing of the planting and harvesting seasons. As a result, our net sales historically have been the lowest in the first quarter and have increased in subsequent quarters.

RESULTS OF OPERATIONS

For the three months ended September 30, 2018, we generated net income of \$71.1 million, or \$0.89 per share, compared to \$60.7 million, or \$0.76 per share, for the same period in 2017. For the first nine months 2018, we generated net income of \$186.8 million, or \$2.33, compared to net income of \$142.1 million, or \$1.77, for the same period in 2017.

Net sales during the three and nine months ended September 30, 2018 were \$2,214.7 million and \$6,759.8 million, which were approximately 11.5% and 17.0% higher than the same period in 2017, respectively, primarily due to the benefit of new acquisitions as well as net sales growth in our North America and Europe/Middle East ("EME") regions.

Income from operations for the three months ended September 30, 2018 was \$111.3 million compared to \$97.1 million for the same period in 2017. Income from operations was \$329.9 million for the nine months ended September 30, 2018 compared to \$261.1 million for the same period in 2017. The increase in income from operations for the three and nine months was primarily the result of higher net sales and improved operating margins.

Regionally, income from operations in our EME region increased for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increase was primarily due to increased net sales and margin improvements, partially offset by higher engineering expenses. In our North American region, income from operations improved for the three and nine months ended September 30, 2018 as compared to the same periods in 2017. The impacts from higher net sales levels as well as the benefit of our Precision Planting acquisition, that was completed in September 2017, contributed to improvement in the region. Income from operations in our South American region increased for the three months ended September 30, 2018 compared to the same period in 2017, primarily driven by increased net sales and higher operating margins. Impacts of material cost inflation and transition costs associated with localizing newer product technology into our Brazilian factories contributed to the decline in income from operations for the nine months ended September 30, 2018 compared to the same period in 2017. The operating results in our Asia/ Pacific/Africa ("APA") region were improved for the three and nine months ended September 30, 2018 compared to the same periods in 2017 primarily due to higher net sales and production levels.

Industry Market Conditions

Global farm equipment demand in the first nine months of 2018 was mixed across key markets with future demand dependent on factors such as commodity price development and government trade and farm support policy. Global crop production is expected to increase modestly from 2017, with robust harvests in North America offset by lower output in the European Union, parts of South America and Asia/Pacific due to dry conditions in those areas.

In North America, industry unit retail sales of utility and high horsepower tractors for the first nine months of 2018 increased by approximately 3% compared to the first nine months of 2017. Industry unit retail sales of combines for

the first nine months of 2018 increased by approximately 13% compared to the first nine months of 2017. Retail sales strengthened in the row crop segment as farmers are replacing their equipment after years of weaker demand.

In Western Europe, industry unit retail sales of tractors for the first nine months of 2018 increased approximately 1% compared to the first nine months of 2017. Industry unit retail sales of combines for the first nine months of 2018 increased by approximately 17% compared to the first nine months of 2017. Sales improved across the markets of the United Kingdom, Scandinavia and Italy, partially offset by declines in France and Germany.

South America industry unit retail sales of tractors for the first nine months of 2018 decreased approximately 1% compared to the same period in 2017. Industry unit retail sales of combines for the first nine months of 2018 increased

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(continued)

approximately 7% compared to the first nine months of 2017. Industry demand in Brazil increased during the third quarter following an improvement in terms for the government's financing programs. In addition, industry retail sales declined in Argentina due to weak economic conditions and lower harvest yields.

## STATEMENTS OF OPERATIONS

Net sales for the three months ended September 30, 2018 were \$2,214.7 million compared to \$1,986.3 million for the same period in 2017. Net sales for the nine months ended September 30, 2018 were \$6,759.8 million compared to \$5,779.1 million for the same period in 2017. The following table sets forth, for the three and nine months ended September 30, 2018, the impacts to net sales of currency translation as well as from acquisitions by geographical segment (in millions, except percentages):

|                     | Three Months             |           | Change  |        | Change Due to        |         | Change Due      |      |
|---------------------|--------------------------|-----------|---------|--------|----------------------|---------|-----------------|------|
|                     | Ended September 30, 2018 | 2017      | \$      | %      | Currency Translation |         | to Acquisitions |      |
| North America       | \$545.5                  | \$483.5   | \$62.0  | 12.8%  | \$(4.9)              | (1.0)%  | \$15.4          | 3.2% |
| South America       | 281.1                    | 273.5     | 7.6     | 2.8%   | (83.0)               | (30.3)% | 4.7             | 1.7% |
| Europe/Middle East  | 1,164.5                  | 1,017.7   | 146.8   | 14.4%  | (21.1)               | (2.1)%  | 23.2            | 2.3% |
| Asia/Pacific/Africa | 223.6                    | 211.6     | 12.0    | 5.7%   | (9.0)                | (4.3)%  | 6.1             | 2.9% |
|                     | \$2,214.7                | \$1,986.3 | \$228.4 | 11.5%  | \$(118.0)            | (5.9)%  | \$49.4          | 2.5% |
|                     | Nine Months              |           | Change  |        | Change Due to        |         | Change Due      |      |
|                     | Ended September 30, 2018 | 2017      | \$      | %      | Currency Translation |         | to Acquisitions |      |
| North America       | \$1,648.9                | \$1,344.9 | \$304.0 | 22.6%  | \$5.6                | 0.4%    | \$107.7         | 8.0% |
| South America       | 682.8                    | 747.6     | (64.8)  | (8.7)% | (129.3)              | (17.3)% | 12.6            | 1.7% |
| Europe/Middle East  | 3,873.4                  | 3,179.7   | 693.7   | 21.8%  | 217.6                | 6.8%    | 104.1           | 3.3% |
| Asia/Pacific/Africa | 554.7                    | 506.9     | 47.8    | 9.4%   | 11.7                 | 2.3%    | 12.6            | 2.5% |
|                     | \$6,759.8                | \$5,779.1 | \$980.7 | 17.0%  | \$105.6              | 1.8%    | \$237.0         | 4.1% |

Regionally, net sales in North America increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increase was a result of net sales growth of high horsepower tractors, hay tools and sprayers. In addition, the Precision Planting acquisition contributed net sales of approximately \$97.2 million during the first nine months of 2018. In the EME region, net sales were higher during the three and nine months ended September 30, 2018 compared to the same periods in 2017. The increase was primarily due to sales growth in Germany, the United Kingdom and France as well as the positive impact from acquisitions and currency translation. Excluding the impact of negative translation impacts, net sales in South America increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017, primarily due to sales growth in Brazil, partially offset by declines in Argentina. In the APA region, net sales increased during the three and nine months ended September 30, 2018 compared to the same periods in 2017, primarily driven by sales growth in Australia and Asia, as well as the impact of acquisitions. We estimate worldwide average price increases were approximately 2.0% and 1.3% during the three and nine months ended September 30, 2018, respectively, compared to the same prior year periods. Consolidated net sales of tractors and combines, which comprised close to 60% of our net sales, increased approximately 12% and 16%, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. Unit sales of tractors and combines increased approximately 11% and 8%, respectively, for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The difference between the

unit sales change and the change in net sales was primarily the result of foreign currency translation, pricing and sales mix changes.

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The following table sets forth, for the periods indicated, the percentage of net sales of certain items in our Condensed Consolidated Statements of Operations (in millions, except percentages):

|  | Three Months Ended September 30, |                               |           |                               |  |  |
|--|----------------------------------|-------------------------------|-----------|-------------------------------|--|--|
|  | 2018                             |                               | 2017      |                               |  |  |
|  | \$                               | % of Net Sales <sup>(1)</sup> | \$        | % of Net Sales <sup>(1)</sup> |  |  |
| Gross profit                                 | \$473.7                          | 21.4 %                        | \$428.6   | 21.6 %                        |  |  |
| Selling, general and administrative expenses | 260.5                            | 11.8 %                        | 233.2     | 11.7 %                        |  |  |
| Engineering expenses                         | 83.3                             | 3.8 %                         | 80.1      | 4.0 %                         |  |  |
| Restructuring expenses                       | 1.5                              | 0.1 %                         | 3.0       | 0.2 %                         |  |  |
| Amortization of intangibles                  | 15.3                             | 0.7 %                         | 14.3      | 0.7 %                         |  |  |
| Bad debt expense                             | 1.8                              | 0.1 %                         | 0.9       | — %                           |  |  |
| Income from operations                       | \$111.3                          | 5.0 %                         | \$97.1    | 4.9 %                         |  |  |
|  | Nine Months Ended September 30,  |                               |           |                               |  |  |
|  | 2018                             |                               | 2017      |                               |  |  |
|  | \$                               | % of Net Sales                | \$        | % of Net Sales <sup>(1)</sup> |  |  |
| Gross profit                                 | \$1,458.0                        | 21.6 %                        | \$1,234.3 | 21.4 %                        |  |  |
| Selling, general and administrative expenses | 796.9                            | 11.8 %                        | 690.5     | 12.0 %                        |  |  |
| Engineering expenses                         | 267.2                            | 4.0 %                         | 230.0     | 4.0 %                         |  |  |
| Restructuring expenses                       | 10.1                             | 0.1 %                         | 8.5       | 0.1 %                         |  |  |
| Amortization of intangibles                  | 49.2                             | 0.7 %                         | 41.5      | 0.7 %                         |  |  |
| Bad debt expense                             | 4.7                              | 0.1 %                         | 2.7       | — %                           |  |  |
| Income from operations                       | \$329.9                          | 4.9 %                         | \$261.1   | 4.5 %                         |  |  |

(1) Rounding may impact summation of amounts.

Gross profit as a percentage of net sales was relatively flat for the three and nine months ended September 30, 2018 compared to the same periods in 2017. The improvement for the nine months ended September 30, 2018 compared to the same period in 2017 was due to benefits from pricing and higher production levels, offset by increased material costs and negative foreign exchange impacts. Production hours increased in both Europe and North America in response to increased demand in those regions during the three and nine months ended September 30, 2018. Overall, production hours increased on a global basis during both the three and nine months ended September 30, 2018 as compared to the same periods in 2017. We recorded approximately \$0.8 million and \$2.7 million of stock compensation expense within cost of goods sold during the three and nine months ended September 30, 2018, respectively, compared to approximately \$0.8 million and \$2.4 million for the comparable periods in 2017, as is more fully explained below and in Note 3 to our Condensed Consolidated Financial Statements.

Selling, general and administrative expenses (“SG&A expenses”) and engineering expenses combined for the three and nine months ended September 30, 2018 were slightly below as a percentage of net sales compared to the same periods in 2017. We recorded approximately \$9.7 million and \$30.6 million of stock compensation expense within SG&A

expenses during the three and nine months ended September 30, 2018, respectively, compared to \$7.9 million and \$29.1 million during the same periods in 2017, as is more fully explained in Note 3 to our Condensed Consolidated Financial Statements. During the nine months ended September 30, 2017, we recorded approximately \$4.8 million of accelerated stock compensation expense associated with a stock award declined by our Chief Executive Officer.

The restructuring expenses of \$1.5 million and \$10.1 million recorded during the three and nine months ended September 30, 2018, respectively, primarily related to severance and other related costs associated with the rationalization of certain manufacturing operations and administrative offices located in Europe, South America, China and the United States. Refer to Note 2 to our Condensed Consolidated Financial Statements for further information.

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Interest expense, net was approximately \$7.0 million and \$38.5 million for the three and nine months ended September 30, 2018, respectively, compared to approximately \$11.6 million and \$33.6 million for the comparable periods in 2017. During the nine months ended September 30, 2018, we recorded approximately \$15.7 million of a loss on the extinguishment of a portion of our 5<sup>7</sup>/<sub>8</sub>% senior notes, partially offset by approximately \$3.0 million of accelerated amortization of the deferred gain related to a terminated interest rate swap instrument associated with the senior notes. Refer to Note 5 to our Condensed Consolidated Financial Statements for further information.

Other expense, net was approximately \$19.1 million and \$57.8 million for the three and nine months ended September 30, 2018, respectively. Other expense, net was approximately \$18.5 million and \$49.2 million for the three and nine months ended September 30, 2017, respectively. Losses on sales of receivables, primarily related to our accounts receivable sales agreements with our finance joint ventures in North America, Europe and Brazil and included in other expense, net, were approximately \$6.7 million and \$24.2 million for the three and nine months ended September 30, 2018, respectively, compared to approximately \$10.3 million and \$27.5 million for the comparable periods in 2017. In addition, foreign exchange losses associated primarily with the significant devaluation of the Argentina peso contributed to the increase in other expense, net for the three and nine months ended September 30, 2018 compared to the same periods in 2017.

We have a wholly-owned subsidiary in Argentina that manufactures and distributes agricultural equipment and replacement parts within Argentina. As of June 30, 2018, on the basis of currently available data related to inflation indices and as a result of the devaluation of the Argentine peso relative to the United States dollar, the Argentinian economy was determined to be highly inflationary. A highly inflationary economy is one where the cumulative inflation rate for the three years preceding the beginning of the reporting period, including interim reporting periods, is in excess of 100 percent. In accordance with this designation and based on the guidance in ASC 830, "Foreign Currency Matters", we changed the functional currency of our wholly-owned subsidiary from the Argentinian peso to the U.S. dollar effective July 1, 2018. For the three months ended September 30, 2018, our wholly-owned subsidiary in Argentina had net sales of approximately \$21.3 million and total assets of approximately \$110.7 million as of September 30, 2018. The monetary assets and liabilities denominated in the Argentine peso were approximately \$25.2 million and approximately \$11.0 million, respectively, as of September 30, 2018. The monetary assets and liabilities were remeasured based on current published exchange rates.

We recorded an income tax provision of approximately \$23.9 million and \$73.8 million for the three and nine months ended September 30, 2018, respectively, compared to \$16.9 million and \$64.9 million, respectively, for the comparable periods in 2017. Our effective tax rate varies from period to period due to the mix of taxable income and losses in the various tax jurisdictions in which we operate. Our effective tax rate for the three and nine months ended September 30, 2018 reflects the impact of a valuation allowance against our U.S. net deferred tax assets and accordingly, having no tax benefit against our U.S. losses.

Equity in net earnings of affiliates, which is primarily comprised of income from our finance joint ventures, was approximately \$9.4 million and \$26.3 million for the three and nine months ended September 30, 2018 compared to approximately \$10.7 million and \$30.8 million for the comparable periods in 2017. The decrease for the three and nine months ended September 30, 2018 as compared to the same periods in 2017 was primarily due to lower net earnings from our finance joint ventures. Refer to "Finance Joint Ventures" for further information regarding our finance joint ventures and their results of operations.

FINANCE JOINT VENTURES



Our AGCO Finance joint ventures provide both retail financing and wholesale financing to our dealers in the United States, Canada, Europe, Brazil, Argentina and Australia. The joint ventures are owned by AGCO and by a wholly owned subsidiary of Rabobank, a financial institution based in the Netherlands. The majority of the assets of the finance joint ventures consist of finance receivables. The majority of the liabilities consist of notes payable and accrued interest. Under the various joint venture agreements, Rabobank or its affiliates provide financing to the joint ventures, primarily through lines of credit. We do not guarantee the debt obligations of the joint ventures. As of September 30, 2018, our capital investment in the finance joint ventures, which is included in "Investment in affiliates" on our Condensed Consolidated Balance Sheets, was approximately \$377.8 million compared to \$373.7 million as of December 31, 2017. The total finance portfolio in our finance joint ventures was approximately \$8.8 billion as of both September 30, 2018 and December 31, 2017. The total finance portfolio as of September 30, 2018 included approximately \$7.2 billion of retail receivables and \$1.6 billion of wholesale receivables from AGCO dealers. The total finance portfolio as of December 31, 2017 included approximately \$7.3 billion of retail receivables and \$1.5 billion of wholesale receivables from AGCO dealers. The wholesale receivables either were sold directly to AGCO Finance without recourse from our operating companies or AGCO Finance provided the financing directly to the dealers. For

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the nine months ended September 30, 2018, our share in the earnings of the finance joint ventures, included in "Equity in net earnings of affiliates" within our Condensed Consolidated Statements of Operations, was \$26.5 million compared to \$30.7 million for the same period in 2017.

**LIQUIDITY AND CAPITAL RESOURCES**

Our financing requirements are subject to variations due to seasonal changes in inventory and receivable levels. Internally generated funds are supplemented when necessary from external sources, primarily our credit facility and accounts receivable sales agreement facilities. We believe that the following facilities, discussed below, together with available cash and internally generated funds, will be sufficient to support our working capital, capital expenditures and debt service requirements for the foreseeable future (in millions):

|   | September<br>30, 2018 |
|---|-----------------------|
| 1.056% Senior term loan due 2020                      | \$231.6               |
| Credit facility, expiring 2020                        | 390.3                 |
| Senior term loans due 2021                            | 115.8                 |
| 5 <sup>7</sup> / <sub>8</sub> % Senior notes due 2021 | 115.8                 |
| Senior term loans due between 2019 and 2028           | 825.7                 |
| Other long-term debt                                  | 29.4                  |
| Debt issuance costs                                   | (3.8 )                |
|   | \$1,704.8             |

On October 17, 2018 we entered into a new credit facility agreement, consisting of a multi-currency revolving credit facility of \$800.0 million. The maturity date of the new credit facility is October 17, 2023. Under the new credit facility agreement, our credit spread is based on our published long-term debt rating. Interest accrues on amounts outstanding under the credit facility, at our option, at either (1) LIBOR plus a margin ranging from 0.875% to 1.875% based on our credit rating, or (2) the base rate, which is equal to the higher of (i) the administrative agent's base lending rate for the applicable currency, (ii) the federal funds rate plus 0.5%, and (iii) one-month LIBOR for loans denominated in US dollars plus 1.0%, plus a margin ranging from 0.0% to 0.875% based on our credit rating. The credit facility contains covenants restricting, among other things, the incurrence of indebtedness and the making of certain payments, including dividends, and is subject to acceleration in the event of a default. We also have to fulfill financial covenants with respect to a total debt to EBITDA ratio and an interest coverage ratio. In connection with the closing of the new credit facility in October 2018, we also repaid our outstanding €312.0 million (\$361.3 million as of September 30, 2018) term loan under our previous revolving credit and term loan facility. We recorded approximately \$0.9 million associated with the write-off of deferred debt issuance costs associated with the repayment. In addition, we recorded a loss of approximately \$3.9 million related to the termination of our interest rate swap contract associated with the previous term loan facility.

In May 2018, we completed a cash tender offer to purchase any and all of our outstanding 5<sup>7</sup>/<sub>8</sub>% senior notes at a cash purchase price of \$1,077.50 per \$1,000.00 of senior notes. As a result of the tender offer, we repurchased approximately \$185.9 million of principal amount of our senior notes for approximately \$200.3 million, plus accrued interest. The repurchase resulted in a loss on extinguishment of debt of approximately \$15.7 million, including associated fees. We also recorded approximately \$3.0 million of accelerated amortization of the deferred gain related to the terminated interest rate swap instrument associated with our senior notes. Both the loss on extinguishment and the accelerated amortization were reflected in "Interest expense, net," for the nine months ended September 30, 2018.

In October 2018, we repurchased the remaining principal amount of our outstanding 5<sup>7</sup>/<sub>8</sub>% senior notes of approximately \$114.1 million for approximately \$122.5 million, plus accrued interest. The repurchase resulted in a

loss on extinguishment of debt of approximately \$8.8 million, including associated fees. We also recorded approximately \$1.7 of accelerated amortization of the deferred gain related to the terminated interest rate swap instrument associated with the senior notes discussed above. Both the loss on extinguishment and the accelerated amortization will be reflected in "Interest expense, net," for the three months ended December 31, 2018.

On August 1, 2018, we borrowed an aggregate amount of indebtedness of €338.0 million (or approximately \$394.7 million) through a group of seven related term loan agreements. Proceeds from the borrowings were used to repay borrowings

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under our revolving credit facility. The provisions of the term loan agreements are identical in nature with the exception of interest rate terms and maturities. The maturities of the term loan agreements range from August 1, 2021 to August 1, 2028.

While we are in compliance with the financial covenants contained in these facilities and currently expect to continue to maintain such compliance, should we ever encounter difficulties, our historical relationship with our lenders has been strong and we anticipate their continued long-term support of our business. Refer to Note 5 to the Condensed Consolidated Financial Statements for further information regarding our current facilities.

Our accounts receivable sales agreements in North America, Europe and Brazil permit the sale, on an ongoing basis, of a majority of our receivables to our U.S., Canadian, European and Brazilian finance joint ventures. The sales of all receivables are without recourse to us. We do not service the receivables after the sale occurs, and we do not maintain any direct retained interest in the receivables. These agreements are accounted for as off-balance sheet transactions and have the effect of reducing accounts receivable and short-term liabilities by the same amount. As of both September 30, 2018 and December 31, 2017, the cash received from receivables sold under the U.S., Canadian, European and Brazilian accounts receivable sales agreements was approximately \$1.3 billion.

Our finance joint ventures in Europe, Brazil and Australia also provide wholesale financing directly to our dealers. The receivables associated with these arrangements are also without recourse to us. As of September 30, 2018 and December 31, 2017, these finance joint ventures had approximately \$50.3 million and \$41.6 million, respectively, of outstanding accounts receivable associated with these arrangements. These arrangements are accounted for as off-balance sheet transactions. In addition, we sell certain trade receivables under factoring arrangements to other financial institutions around the world. These arrangements are also accounted for as off-balance sheet transactions.

Cash Flows

Cash flows used in operating activities were approximately \$4.0 million for the first nine months of 2018 compared to approximately \$29.2 million for the first nine months of 2017. Our working capital requirements are seasonal, with investments in working capital typically building in the first half of the year and then reducing in the second half of the year. We had \$1,129.9 million in working capital at September 30, 2018 as compared to \$977.1 million at December 31, 2017 and \$1,291.4 million at September 30, 2017. Accounts receivable and inventories, combined, at September 30, 2018 were \$202.2 million higher than at December 31, 2017 and \$18.1 million lower than at September 30, 2017, respectively. Excluding the negative impact of currency translation, inventories increased as of September 30, 2018 compared to September 30, 2017 as a result of supplier constraint impacts, acquisition impacts and higher production.

Capital expenditures for the first nine months of 2018 were \$138.5 million compared to \$139.4 million for the same period of 2017. We anticipate that capital expenditures for the full year of 2018 will be approximately \$250.0 million and will be used primarily to support the development and enhancement of new and existing products, upgrade our system capabilities and improve our factory productivity.

Our debt to capitalization ratio, which is total indebtedness divided by the sum of total indebtedness and stockholders' equity, was 38.1% and 35.7% at September 30, 2018 and December 31, 2017, respectively.

Share Repurchase Program

During the nine months ended September 30, 2018, through open market transactions, we repurchased 534,403 shares of our common stock for approximately \$34.3 million at an average price paid of \$64.14 per share. Repurchased shares were retired on the date of purchase, and the excess of the purchase price over par value per share was recorded to “Additional paid-in capital” within our Condensed Consolidated Balance Sheets.

During the three months ended September 30, 2018, we entered into an accelerated share repurchase (“ASR”) agreement with a financial institution to repurchase an aggregate of \$50.0 million of shares of our common stock. We received approximately 638,978 shares during the three months ended September 30, 2018 related to the ASR agreement. The specific number of shares we ultimately repurchased was determined at the completion of the term of the ASR based on the daily volume-weighted average share price of our common stock less an agreed upon discount. Upon settlement of the ASR, we were entitled to receive additional shares of common stock or, under certain circumstances, were required to remit a settlement amount. In October 2018, we received an additional 197,848 shares of common stock upon final settlement of the ASR. All

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Management's Discussion and Analysis of Financial Condition and Results of Operations  
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shares received under the ASR were retired upon receipt, and the excess of the purchase price over par value per share was recorded to "Additional paid-in capital" within our Condensed Consolidated Balance Sheets.

COMMITMENTS, OFF-BALANCE SHEET ARRANGEMENTS AND CONTINGENCIES

We are party to a number of commitments and other financial arrangements, which may include "off-balance sheet" arrangements. At September 30, 2018, we have outstanding guarantees of indebtedness owed to third parties of approximately \$28.9 million, primarily related to dealer and end-user financing of equipment. We also sell a majority of our wholesale receivables in North America, Europe and Brazil to our U.S., Canadian, European and Brazilian finance joint ventures. At September 30, 2018, we had outstanding designated and non-designated foreign currency contracts with a gross notional amount of approximately \$1,442.2 million. Refer to "Liquidity and Capital Resources" and "Item 3. Quantitative and Qualitative Disclosures about Market Risk-Foreign Currency Risk Management," as well as to Notes 10, 12 and 16 to our Condensed Consolidated Financial Statements, for further discussion of these matters.

Contingencies

The Environmental Protection Agency ("EPA") of Victoria, Australia issued a notice to our Australian subsidiary regarding remediation of contamination of a property located in a suburb of Melbourne, Australia. The property was owned and divested by the subsidiary before the subsidiary was acquired by us. Our Australian subsidiary is in correspondence with the EPA concerning the notice. The notice was voluntarily withdrawn by the EPA in March 2018, but may be refiled in the future.

As part of routine audits, the Brazilian taxing authorities disallowed deductions relating to the amortization of certain goodwill recognized in connection with a reorganization of our Brazilian operations and the related transfer of certain assets to our Brazilian subsidiaries.

Refer to Note 16 to our Condensed Consolidated Financial Statements for further discussion of these matters.

OUTLOOK

Our net sales in 2018 are expected to increase compared to 2017, primarily due to the impact of improved net sales volumes, pricing and acquisition-related sales. Income from operations and net income are expected to be above 2017 levels due to the impact of higher net sales as well as margin improvement.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition and results of operations are based upon our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an ongoing basis, management evaluates estimates, including those related to discounts and sales incentive allowances, goodwill, other intangible and long-lived assets, deferred income taxes and uncertain income tax positions and pension and other postretirement benefit obligations. Management bases these estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. A description of critical accounting policies and related judgments and estimates that affect the preparation of our Condensed Consolidated Financial Statements is set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

FORWARD-LOOKING STATEMENTS

Certain statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere in this Quarterly Report on Form 10-Q are forward-looking, including certain statements set forth under the headings “Liquidity and Capital Resources” and “Outlook.” Forward-looking statements reflect assumptions, expectations, projections, intentions or beliefs about future events. These statements, which may relate to such matters as earnings, net sales, margins, industry demand, market conditions, commodity prices, farm incomes, foreign currency translation, general economic outlook, availability of financing, product development and enhancement, factory productivity, production and sales volumes, benefits from cost reduction initiatives, tax rates, compliance with loan covenants, capital expenditures and working capital and debt service requirements are “forward-looking statements” within the meaning of the federal securities laws. These statements do

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not relate strictly to historical or current facts, and you can identify certain of these statements, but not necessarily all, by the use of the words "anticipate," "assumed," "indicate," "estimate," "believe," "predict," "forecast," "rely," "expect," "con" and other words of similar meaning. Although we believe that the expectations and assumptions reflected in these statements are reasonable in view of the information currently available to us, there can be no assurance that these expectations will prove to be correct.

These forward-looking statements involve a number of risks and uncertainties, and actual results may differ materially from the results discussed in or implied by the forward-looking statements. Adverse changes in any of the following factors could cause actual results to differ materially from the forward-looking statements:

- general economic and capital market conditions;
- availability of credit to our retail customers;
- the worldwide demand for agricultural products;
- grain stock levels and the levels of new and used field inventories;
  - cost of steel and other raw materials;
  - energy costs;
  - performance and collectability of the accounts receivable originated or owned by AGCO or AGCO Finance;
- government policies and subsidies;
- uncertainty regarding changes in the international tariff regimes and their impact on the cost of the products that we sell;
- weather conditions;
- interest and foreign currency exchange rates;
- pricing and product actions taken by competitors;
- commodity prices, acreage planted and crop yields;
- farm income, land values, debt levels and access to credit;
- pervasive livestock diseases;
- production disruptions;
- production levels and capacity constraints at our facilities, including those resulting from plant expansions and systems upgrades;
- integration of recent and future acquisitions;
  - our expansion plans in emerging markets;
- supply constraints;
- our cost reduction and control initiatives;
- our research and development efforts;
- dealer and distributor actions;
- regulations affecting privacy and data protection;
- technological difficulties; and
- political and economic uncertainty in various areas of the world.

Any forward-looking statement should be considered in light of such important factors. For additional factors and additional information regarding these factors, please see "Risk Factors" in our Form 10-K for the year ended December 31, 2017.

We have joint ventures in the Netherlands and Russia with an entity that currently is operating under a time-limited general license from the U.S. Department of the Treasury authorizing the maintenance or wind down of operations and existing





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contracts. In the event that the license expires without further relief being granted or without other authorization from the U.S. Department of the Treasury, we may no longer be able to continue the joint ventures' commercial operations and we would be required to assess the fair value of certain assets related to the joint ventures for potential impairment.

New factors that could cause actual results to differ materially from those described above emerge from time to time, and it is not possible for us to predict all of such factors or the extent to which any such factor or combination of factors may cause actual results to differ from those contained in any forward-looking statement. Any forward-looking statement speaks only as of the date on which such statement is made, and we disclaim any obligation to update the information contained in such statement to reflect subsequent developments or information except as required by law.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk Management

For quantitative and qualitative disclosures about market risks, see “Quantitative and Qualitative Disclosures About Market Risks” in Item 7A of Part II of our Annual Report on Form 10-K for the year ended December 31, 2017. As of the third quarter of 2018, there has been no material change in our exposure to market risks.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of September 30, 2018, have concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company’s management, including the Chief Executive Officer and the Chief Financial Officer, does not expect that the Company’s disclosure controls or the Company’s internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Because of the inherent limitations in a cost effective control system, misstatements due to error or fraud may occur and not be detected. We will conduct periodic evaluations of our internal controls to enhance, where necessary, our procedures and controls.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation described above that occurred during the three months ended September 30, 2018 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

We are a party to various other legal claims and actions incidental to our business. These items are more fully discussed in Note 16 to our Condensed Consolidated Financial Statements.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases of our common stock made by or on behalf of us during the three months ended September 30, 2018:

| Period  | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup> | Maximum Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) <sup>(1)</sup> |
|---|----------------------------------|------------------------------|---|---|
| July 1, 2018 through July 31, 2018                    | —                                | \$ —                         | —   | \$ 297.1  |
| August 1, 2018 through August 31, 2018 <sup>(2)</sup> | 638,978                          | \$ 62.60                     | 638,978   | \$ 247.1  |
| September 1, 2018 through September 30, 2018          | —                                | \$ —                         | —   | \$ 247.1  |
| Total   | 638,978                          | \$ 62.60                     | 638,978   | \$ 247.1  |

<sup>(1)</sup> The remaining authorized amount to be repurchased is \$247.1 million, of which \$215.7 million expires in December 2019 and \$31.4 million has no expiration date.

<sup>(2)</sup> In August 2018, we entered into an accelerated share repurchase (“ASR”) agreement with a third-party financial institution to repurchase \$50.0 million of our common stock. The ASR agreement resulted in the initial delivery of 638,978 shares of our common stock, representing approximately 80% of the shares expected to be repurchased in connection with the transaction. In October 2018, the remaining 197,848 shares under the ASR agreement were delivered. The average price paid per share related to the ASR agreement reflected in the table above was derived using the fair market value of the shares on the date the initial 638,978 shares were delivered. The amount that may yet be purchased under our share repurchase programs, as presented in the above table, was reduced by the entire \$50.0 million payment related to the ASR agreement. Refer to Note 11 of our Condensed Consolidated Financial Statements for a further discussion of this matter.



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## ITEM 6. EXHIBITS

(The Company is not filing, under Item 4, instruments defining the rights of holders of long-term debt where the debt does not exceed 10% of the Company's total assets. The Company agrees to furnish copies of those instruments to the Commission upon request.)

| Exhibit Number | Description of Exhibit  | The filings referenced for incorporation by reference are AGCO Corporation |
|----------------|---|--|
| <u>10.1</u>    | <u>Credit Agreement dated as of October 17, 2018</u>          | Filed herewith   |
| <u>31.1</u>    | <u>Certification of Martin Richenhagen</u>                    | Filed herewith   |
| <u>31.2</u>    | <u>Certification of Andrew H. Beck</u>                        | Filed herewith   |
| <u>32.1</u>    | <u>Certification of Martin Richenhagen and Andrew H. Beck</u> | Furnished herewith   |
| <u>101.INS</u> | <u>XBRL Instance Document</u>                                 | Filed herewith   |
| <u>101.SCH</u> | <u>XBRL Taxonomy Extension Schema</u>                         | Filed herewith   |
| <u>101.CAL</u> | <u>XBRL Taxonomy Extension Calculation Linkbase</u>           | Filed herewith   |
| <u>101.DEF</u> | <u>XBRL Taxonomy Extension Definition Linkbase</u>            | Filed herewith   |
| <u>101.LAB</u> | <u>XBRL Taxonomy Extension Label Linkbase</u>                 | Filed herewith   |
| <u>101.PRE</u> | <u>XBRL Taxonomy Extension Presentation Linkbase</u>          | Filed herewith   |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AGCO CORPORATION

Registrant

Date: November 8, 2018

/s/ Andrew H. Beck  
Andrew H. Beck  
Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

/s/ Lara T. Long  
Lara T. Long  
Vice President, Chief Accounting Officer  
(Principal Accounting Officer)