



Corporate Strategic Plan Review

July 1979

Corporate Planning Department

IH CORPORATE
PRELIMINARY STRATEGIC PLAN 1980-1984

7-24-79

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I. SUMMARY

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PRELIMINARY STRATEGIC PLAN 1980-1984

SUMMARY

KEY STRATEGY ELEMENTS

- SIMULTANEOUS DRIVE FOR MARKET SHARE AND IMPROVED PROFITABILITY
- INCREASE EMPHASIS ON MARKETING PROGRAMS
- MAINTAIN EMPHASIS ON COST REDUCTION AND PRODUCTIVITY IMPROVEMENT
- MAJOR INCREASES IN CAPITAL EXPENDITURES
- MAINTAIN THE EXISTING SBU PORTFOLIO

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KEY ASSUMPTIONS

- GROWTH IN MOST MARKETS IS LOW
 - INFLATION APPROXIMATELY 7%
 - REAL GROWTH APPROXIMATELY 3%

- RECESSION IN 1980--WITH NO REAL GROWTH

- MARKET SHARE GAINS CAN BE MADE IN NEARLY ALL PRODUCTS AND MARKETS

- PRICING TO RECOVER COST INFLATION AND RETAIN MOST PRODUCTIVITY GAINS CAN BE MAINTAINED IN MOST SBU'S

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PROJECTED RESULTS

- SALES GROWTH 14.3%/YEAR TO \$16,109MM IN 1984

- MARKET SHARE GAIN FROM 15.4% IN 1979 TO 19.2% IN 1984
(CORPORATE WEIGHTED)

- PROFIT BEFORE TAX GROWTH 31%/YEAR TO \$2,510MM IN 1984
 - ROS INCREASES FROM 7.9% IN 1979 TO 15.6% IN 1984
 - ROA INCREASES FROM 13.4% IN 1979 TO 26.2% IN 1984

- EARNINGS PER SHARE GROWTH 30%/YEAR TO \$41.68 IN 1984

- DEBT/EQUITY IMPROVES FROM .63:1 IN 1979 TO .32:1 IN 1984

- CASH FLOW DEFICIT \$358.6 CUMULATIVE 1979 THRU 1984
\$729.1 CUMULATIVE 1979 THRU 1982

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CONCLUSIONS

- THE PLAN IS HIGHLY OPTIMISTIC IN TERMS OF EXPECTED PROFITABILITY
- NEARLY ALL SBU'S ARE BEING PUSHED FOR MARKET SHARE GROWTH AND PROFIT SIMULTANEOUSLY
- THE LACK OF SELECTIVITY AND CONCENTRATION OF RESOURCES RESULTS IN MARGINAL COMPETITIVE GAINS EVERYWHERE AND A 1984 PORTFOLIO THAT HAS LITTLE CHANGE FROM 1979--EXCEPT FOR IMPROVED PROFITABILITY
- PROFITABILITY IS HIGHLY DEPENDENT ON INFLATION PRICING AND RETENTION OF MOST PRODUCTIVITY GAINS--WHILE GAINING SHARE IN MATURE MARKETS
- ASSUMPTION THAT PROFITABILITY CAN BE DRAMATICALLY IMPROVED WITHOUT MAJOR IMPROVEMENTS IN RELATIVE COMPETITIVE STRENGTH CONTRADICTS EVIDENCE THAT PROFITABILITY AND RELATIVE COMPETITIVE STRENGTH TEND TO BE HIGHLY CORRELATED FOR IH AND ITS COMPETITORS
- THE ABILITY TO FUND THE PLAN IS HIGHLY SENSITIVE TO THE VALIDITY OF KEY ASSUMPTIONS AND THE SIMULTANEOUS ACHIEVEMENT BY MOST SBU'S OF MULTIPLE HIGH TASK GOALS AT PLANNED PROGRAM EXPENDITURE LEVELS

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II. THE 1980 STRATEGIC PLAN vs. THE 1979 STRATEGIC PLAN

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1980 STRATEGIC PLAN COMPARED TO THE
CURRENT OPINION FOR 1979^a

(\$ Millions)

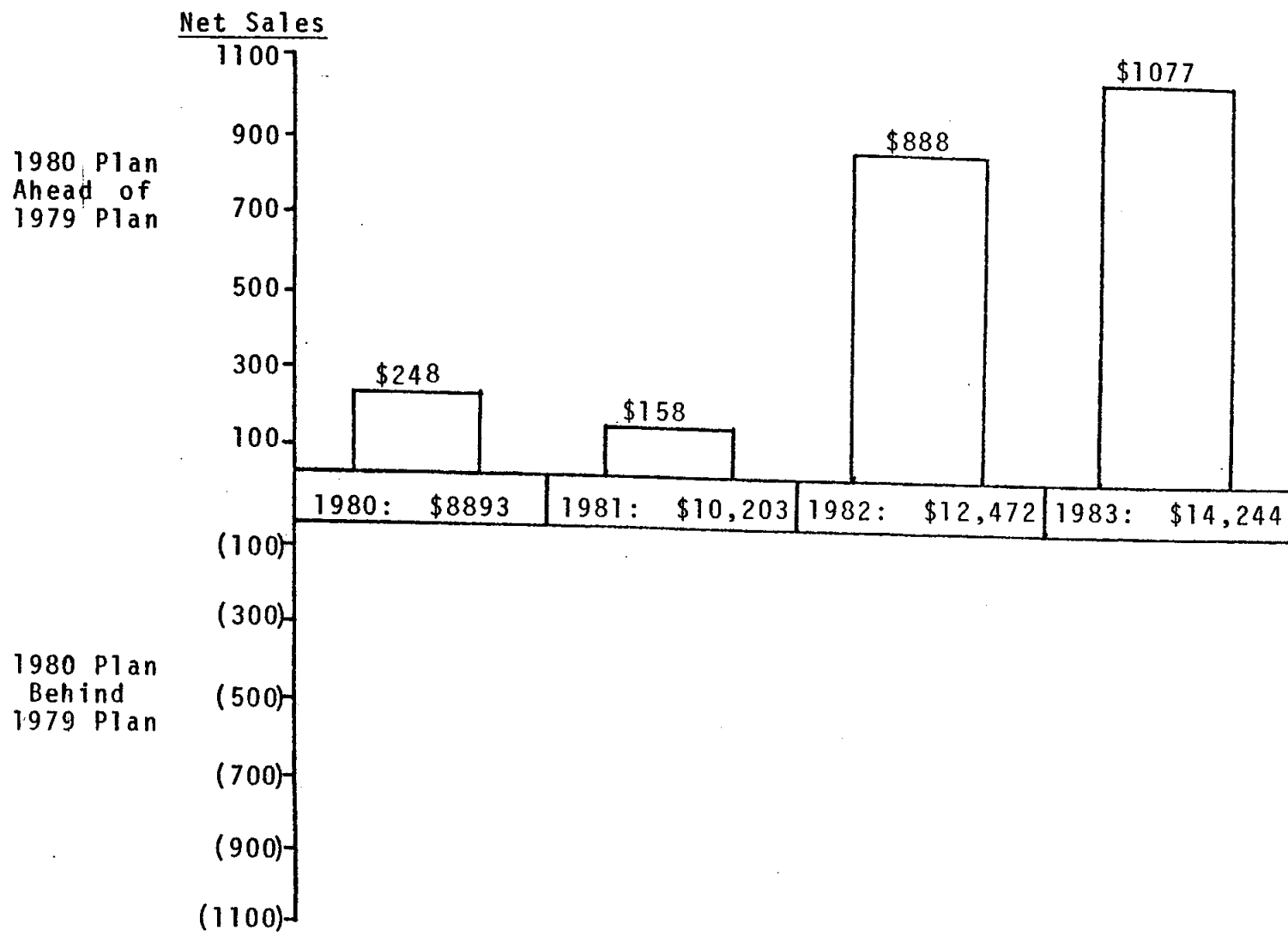
	FY 1979 ^a Current Opinion	1980 Strategic Plan	Strategic Plan 0/(U) 1979 (\$)	(%)
Sales				
Agricultural Equipment	\$ 3,128.4	\$ 3,600.2	\$ 471.8	15
Truck	3,957.6	4,085.3	127.7	3
Payline	1,065.8	1,289.9	224.1	21
Solar	354.6	362.4	7.8	2
Components	1,052.0	1,076.2	34.2	3
Intergroup Sales	(1,146.4)	(1,520.5)	(374.1)	(32)
Consolidated Sales	\$ 8,252.0	\$ 8,893.5	\$ 491.5	8
Profit Before Tax				
Agricultural Equipment	\$ 190.0	\$ 250.0	\$ 60.0	32
Truck	220.0	250.3	30.3	14
Payline	10.3	25.0	14.7	143
Solar	31.5	30.4	(1.1)	(.3)
Components ^b	72.5	34.0	(38.5)	(53)
Finance Operations	123.8	123.7	(0.1)	(-)
Total Operations	\$ 648.1	\$ 713.4	\$ 65.3	9
Memo: Total Corporate PBT	\$ 653.7	\$ 742.3	\$ 88.6	14
Ending Assets				
Agricultural Equipment	\$ 1,263.3	1,560.2	296.9	24
Truck	1,570.7	1,685.1	114.4	7
Payline	579.7	714.5	134.8	23
Solar	284.9	293.2	8.3	3
Components	397.4	524.1	126.7	32
Finance Operations	748.3	872.4	124.1	17
Adjustments/Eliminations	5.6	(154.4)	(160.0)	
Total Assets	\$ 4,849.9	\$ 5,495.1	\$ 645.2	13

^aCurrent Opinion June 1, 1979, after contingencies: Sales(\$150.0) - PBT(\$2.2)

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^bComponents PBT pass thru of \$16MM in 1979 & \$43.0 in 1980

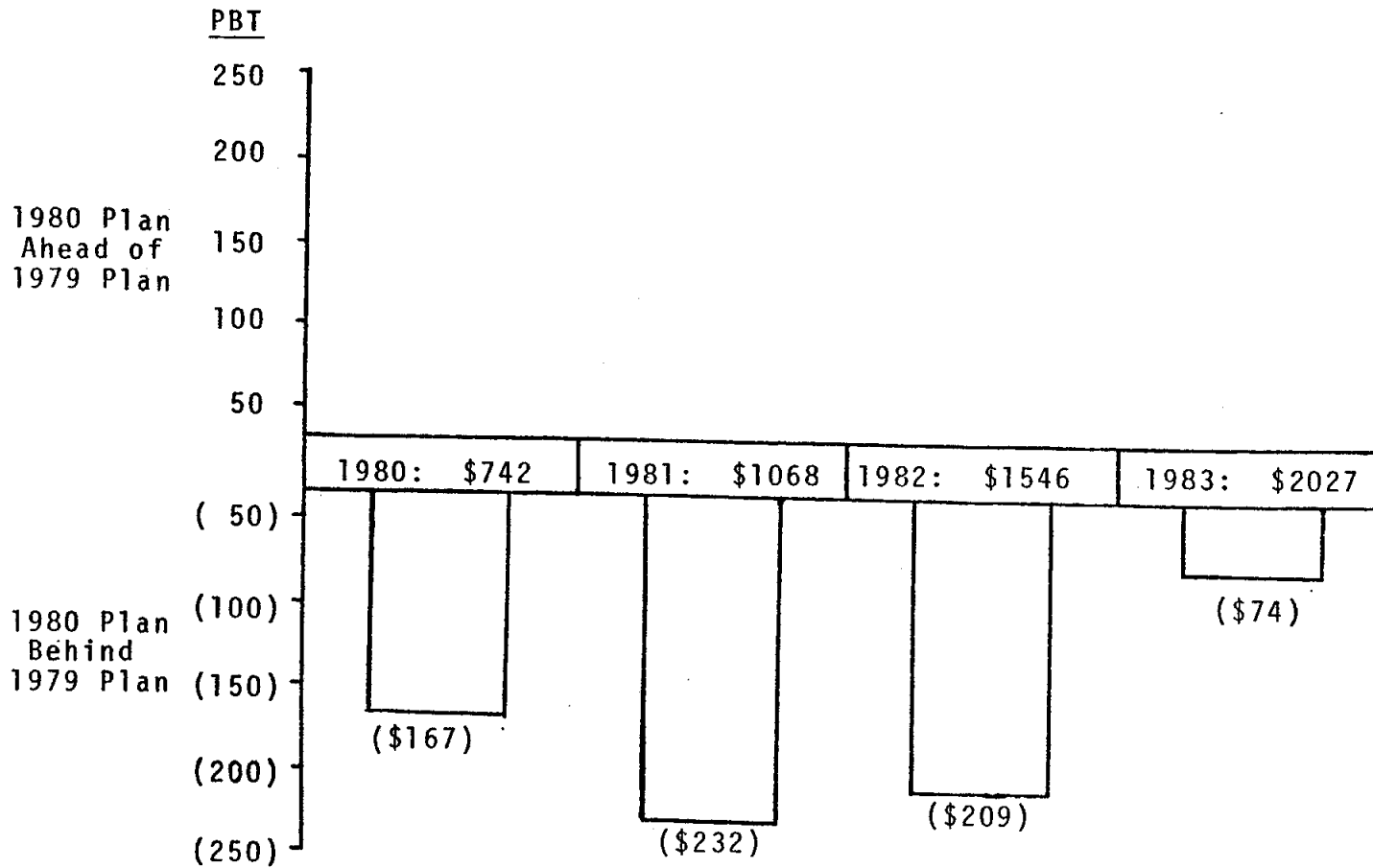
IH CORPORATE
 1980 Strategic Plan vs. 1979 Strategic Plan
 Sales Comparison^a
 (\$ Million)



^aBefore Corporate Contingency

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IH CORPORATE
 1980 Strategic Plan vs. 1979 Strategic Plan
 Profit Before Tax Comparison^a



^aBefore Corporate Contingency

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COMPARISON OF 1980 STRATEGIC PLAN TO 1979 STRATEGIC PLAN
SUMMARY^a
(\$ Million)

	1980			1981			1982			1983		
	'80 Plan	B(W) '79 Plan	%	'80 Plan	B(W) '79 Plan	%	'80 Plan	B(W) '79 Plan	%	'80 Plan	B(W) '79 Plan	%
Sales	8,893.5	247.6	3	10,203.1	157.9	2	12,472.1	888.1	7	14,243.9	1,077.2	8
PBT	742.3	(167.2)	(18)	1,067.5	(231.8)	(18)	1,545.6	(209.2)	(12)	2,027.4	(73.6)	(4)
ROS (before tax)	8.35	(2.17)		10.46	(2.47)		12.39	(2.76)		14.23	(1.73)	
Ending Assets	5,495.1	(620.5)	(13)	6,649.4	(1,299.6)	(24)	7,549.9	(1,600.6)	(27)	8,412.0	(1,892.3)	(29)
ROA (before tax) ^b	13.51	(5.15)		16.05	(8.24)		20.47	(9.03)		24.10	(8.13)	
Asset Turnover ^c	1.62	(.15)		1.53	(.35)		1.65	(.3)		1.69	(.33)	

^a Before Corporate Contingency

^b ROA = PBT ÷ Ending Assets

^cATO = Sales ÷ Ending Assets

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1979 CURRENT OPINION^a VS. 1984 STRATEGIC PLAN
GROUP PERCENTAGE OF CORPORATE TOTALS

	Sales		Profit Before Tax		Ending Assets		Total Capital Expenditures	Total R & D
	1979	1984	1979	1984	1979	1984	1980-84	1980-84
Agricultural Equipment	\$ 3,128.4	\$ 6,019.3	\$ 190.0	\$ 750.0	\$ 1,263.3	\$ 2,501.4	\$ 1,081.2	\$ 521.5
	38%	37%	29%	30%	26%	27%	32%	34%
Truck	3,957.6	7,059.3	220.0	728.3	1,570.7	3,009.0	866.4	485.3
	48%	44%	34%	29%	32%	32%	26%	32%
Payline	1,065.8	2,597.6	10.3	252.3	579.7	1,352.0	350.7	247.7
	13%	16%	1%	10%	12%	14%	11%	16%
Solar	354.6	974.1	31.5	207.2	284.9	617.9	125.9	117.9
	4%	6%	5%	8%	6%	7%	4%	8%
Components	1,042.0	1,968.3	72.5	202.2	397.4	963.7	784.6	152.0
	13%	12%	11%	8%	8%	10%	23%	10%
Intergroup Sales	(1,146.4)	(2,509.4)						
	(14%)	(15%)						
Finance			123.8	208.0	748.3	1,446.6		
			19%	8%	16%	15%		
Adjustments/Eliminations	(150.0)		5.6	161.8	5.6	(470.9)	134.9	
	2%		1%	7%	0.1%	(5%)	4%	
Total ^b	\$ 8,252.0	\$ 16,109.2	\$ 653.7	\$ 2,509.8	\$ 4,849.9	\$ 9,419.7	\$ 3,343.7	\$ 1,524.6
	100%	100%	100%	100%	100%	100%	100%	100%

^a June 1, 1979

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^b Totals may not tie due to rounding.

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PROPOSED STRATEGIC PLAN 1980-1984
COMPETITIVE EXCELLENCE TARGET
 (\$ Millions)

	1979 ^a Current Opinion	P L A N				
		1980	1981	1982	1983	1984
Sales	\$8,252.0	\$ 8,893.5	\$10,203.1	\$12,472.1	\$14,243.9	\$16,109.2
Profit Before Tax	653.7	742.3	1,067.5	1,545.6	2,027.4	2,509.8
Competitive Target PBT at 13.4%	1,105.8	1,191.7	1,367.2	1,671.3	1,908.7	2,158.6
Gap	(452.1)	(449.4)	(299.7)	(125.7)	118.7	351.2
Memo: 1979 Strategic Plan Gap (9/1/79 Revision)	(346.4)	(152.4)	76.1	351.4	521.2	

^a June 1 current opinion

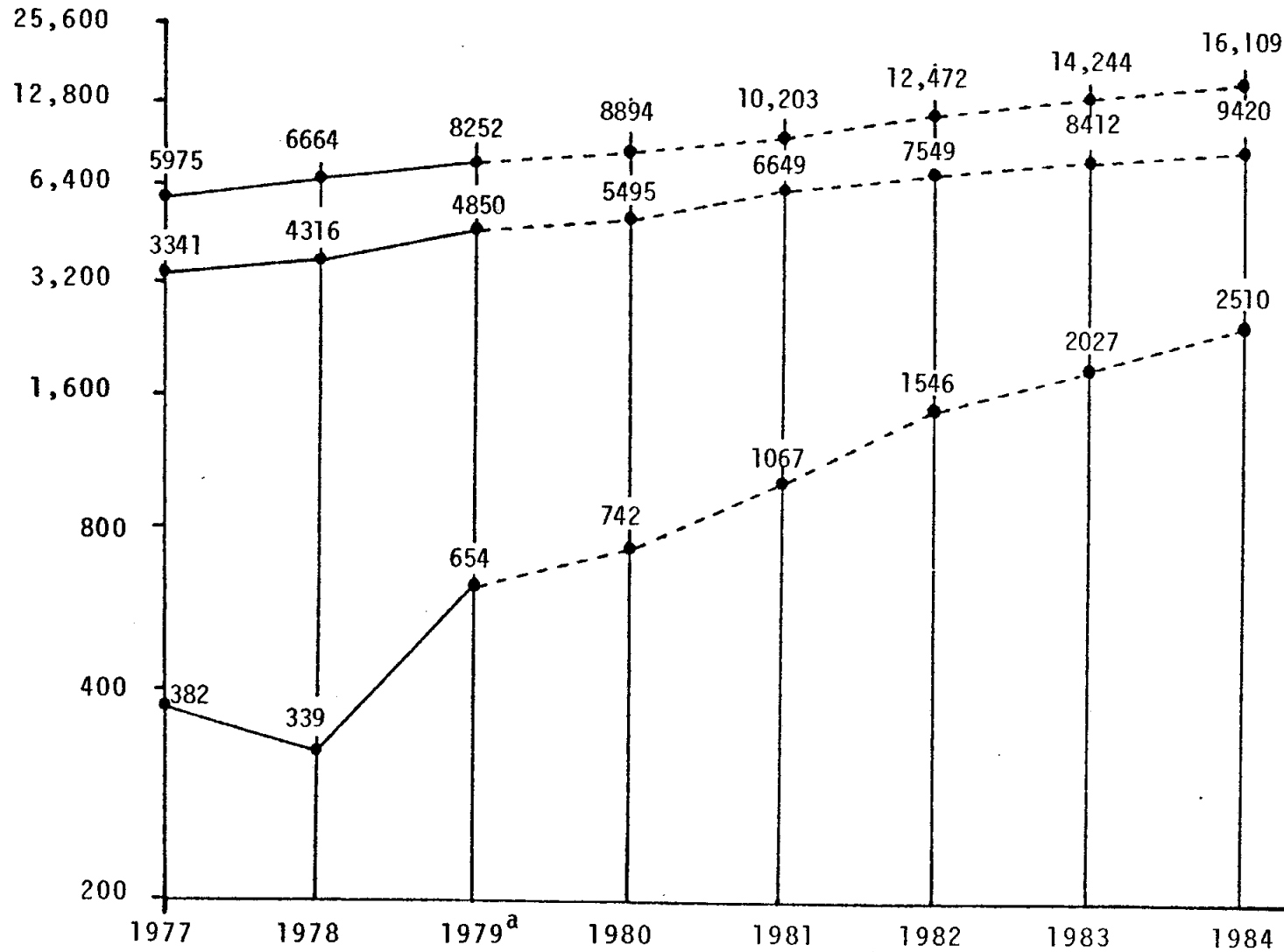
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III. FINANCIAL RESULTS

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SALES, ASSETS, & PROFIT BEFORE TAX 1977-1984

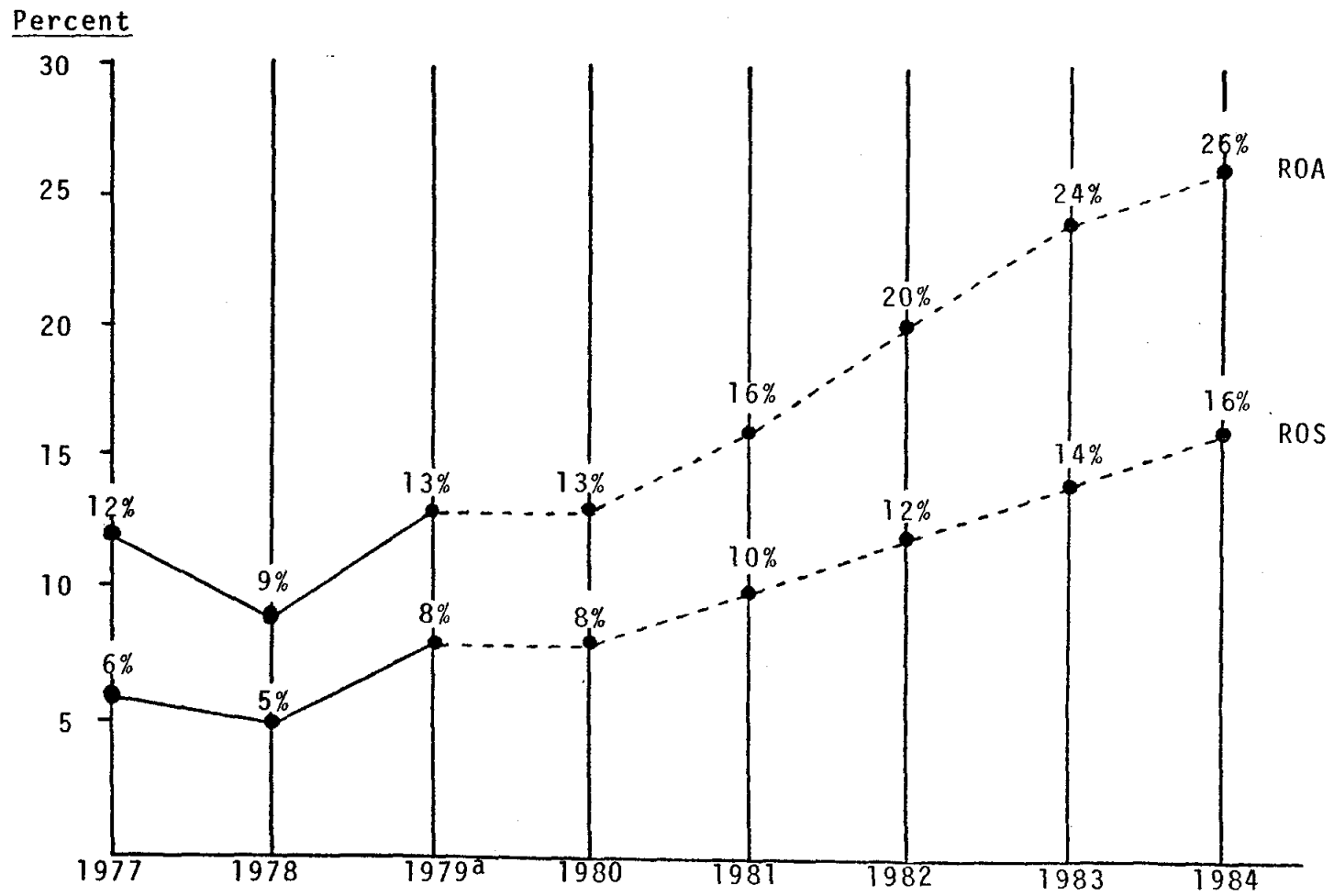
\$ Millions



Compound Growth
 1979-1984
 Sales = 14.3%
 Assets = 14.2%
 PBT = 31%

^aCurrent Opinion June 1, 1979

IH CORPORATE
PRETAX RETURN ON SALES & RETURN ON ASSETS 1977-1984

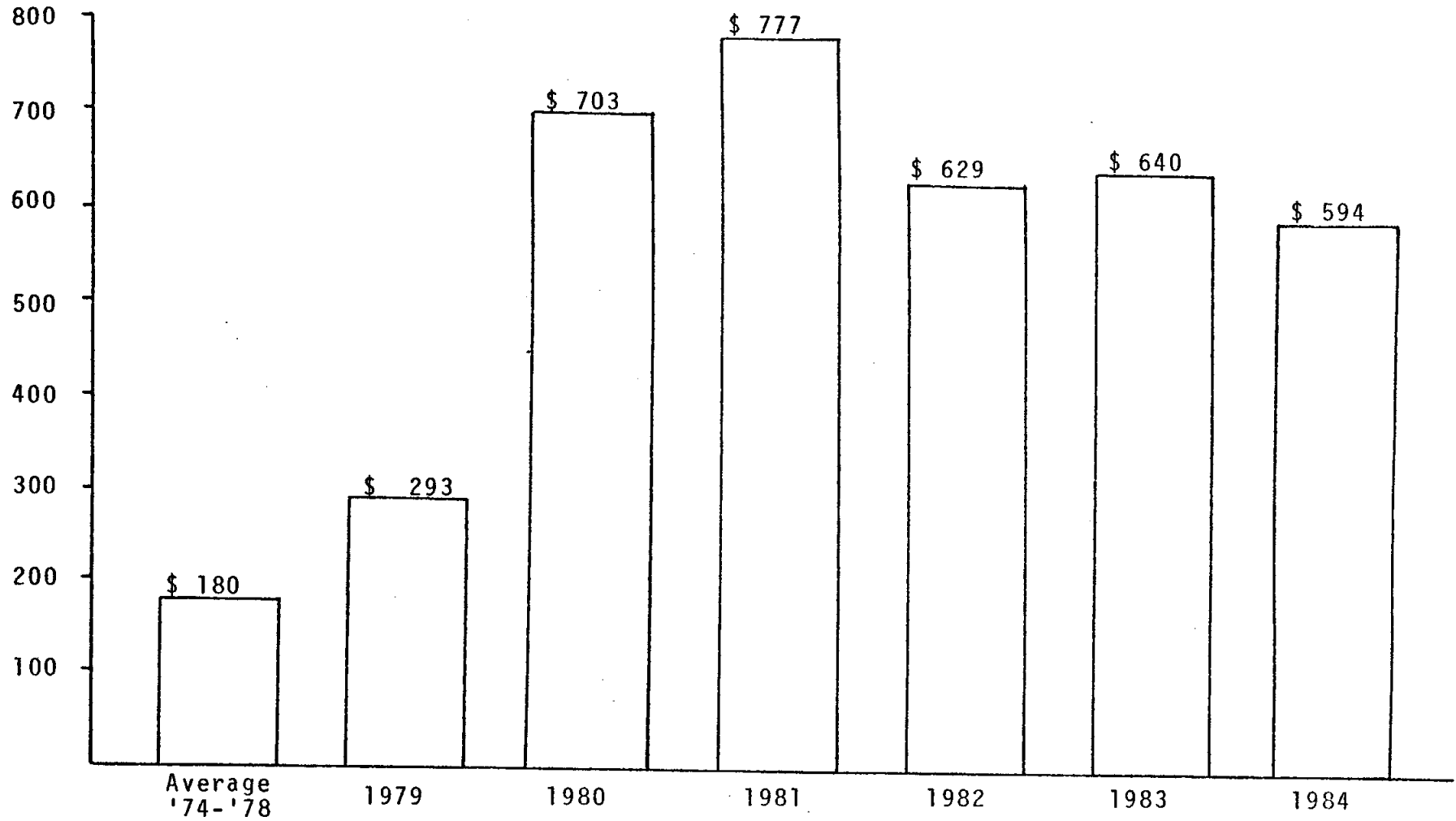


^aCurrent Opinion June 1, 1979

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IH CORPORATE
PLANNED vs. HISTORICAL CAPITAL EXPENDITURES

\$ Millions



Memo: 1979 Strategic Plan

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TOTAL RESOURCES REQUESTED^a
(\$ Millions)

P L A N

	1979 ^b Current Opinion	P L A N					Total 1980-1984	
		1980	1981	1982	1983	1984	\$	%
<u>Capital Expenditures</u>								
Product	88.8	227.1	186.5	185.0	224.1	226.9	1049.6	32%
Cost Reduction	90.8	196.1	189.7	105.1	117.1	103.4	711.4	21
Other	113.4	279.8	401.1	339.1	299.0	263.7	1582.7	47
Total	\$ 293.0	703.0	777.3	629.2	640.2	594.0	\$3343.7	100%
<u>Change in Working Capital Increase(Decrease)</u>		(70.0)	149.1	59.6	341.4	234.9		
<u>R & D Expenditures</u>								
Product	61.8	70.7	71.8	72.2	74.7	73.7	363.1	24%
Other	123.9	166.5	201.2	233.9	264.7	295.2	1161.5	76
Total	185.7	237.2	273.0	306.1	339.4	368.9	1524.6	100%
Percent to Sales	2.3%	2.7%	2.7%	2.5%	2.4%	2.3%	2.5%	
<u>M & A Expense</u>								
Total	\$1037.4	1198.4	1385.8	1614.0	1833.8	2043.0	\$8075.0	
Percent to Sales	12.6%	13.5%	13.6%	12.9%	12.9%	12.7%	13%	

^aIncludes staff groups' capital expenditures. 1980 and 1981 figures include funds for Corp., Science & Technology facilities and also fluidized coal bed conversion.

^bJune 1, 1979 current opinion.

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PRELIMINARY STRATEGIC PLAN 1980-1984

FINANCIAL SUMMARY

	<u>1979^a</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Net Income (after tax)	353.9	400.5	576.1	834.6	1094.8	1355.3
Earnings per Share	11.50	12.80	18.24	26.16	33.98	41.67
Stockholder's Equity	2184.1	2505.5	2944.4	3557.1	4349.6	5317.7
Cum. Cash Flow	(51.4)	(252.8)	(673.4)	(729.1)	(577.5)	(358.6)
Change in Debt Favorable(Unfavorable)	(51.4)	(201.4)	(420.6)	(55.7)	151.6	218.9
Debt/Equity Ratio (Total Debt/Equity)	.63	.63	.67	.58	.43	.32
Return on Equity	16.3	16.1	19.7	23.5	25.3	25.5

^aJune 1, 1979 Opinion

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PRELIMINARY STRATEGIC PLAN HIGHLIGHTS (1980-1984)

		HISTORY				PROJECTION				GROWTH	
		1977	1978	1979*	1980	1981	1982	1983	1984	77-79	79-84
A. NET SALES	\$MM	5975.30	6664.29	8252.04	8893.52	10203.06	12472.08	14243.95	16109.21	17.52	14.31
B. BREAK-EVEN SALES %	%		79.00	82.09	84.09	77.57	71.24	66.96	64.13		
C. PLN. PROD/TOTAL COST	%		1.70	2.55	1.99	2.83	2.24	2.27	2.20		
D. PROFIT BEFORE TAX	\$MM	382.66	339.66	653.74	742.30	1067.50	1545.55	2027.44	2509.84	30.71	30.87
E. ROS	%	6.40	5.10	7.92	8.35	10.46	12.39	14.23	15.58		
F. TOTAL AVG ASSETS	\$MM	3341.73	3927.36	4875.56	5519.15	6649.70	7566.40	8576.28	9574.10		
G. ASSET (AVG) TURNOVER	X	1.79	1.70	1.69	1.61	1.53	1.65	1.66	1.68		
H. WORKING CAPITAL TURNOVER (AVG)	X			4.40	4.49	4.53	4.80	4.82	4.82		
I. ROA (AVG ASSETS)	%	11.45	8.65	13.41	13.45	16.05	20.43	23.64	26.21		
J. ESTIMATED CAPITAL EXPENDITURES	\$MM	126.46	210.31	293.02	702.96	777.26	629.23	640.21	594.00		
K. MA&E EXPENSE	\$MM	766.41	920.43	1037.37	1198.35	1385.78	1614.00	1833.78	2043.01	16.34	14.52
L. MAE/SALES	%	12.83	13.81	12.57	13.47	13.58	12.94	12.87	12.68		
M. R&D EXPENSE	\$MM	143.01	170.23	185.72	237.15	273.01	306.11	339.40	368.87	13.96	14.71
N. R&D/SALES	%	2.39	2.55	2.25	2.67	2.68	2.45	2.38	2.29		
O. CASH FLOW (CORPORATE)	\$MM	(6.30)	(64.40)	(51.40)	(201.40)	(420.60)	(55.70)	151.60	218.90		
P. CONTINGENCY	\$MM	0	0	(15.90)	(91.30)	(182.26)	(290.96)	(364.53)	(392.90)		

*June 1 Current Opinion

IV. PLAN ANALYSIS

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CAUSAL FACTOR ANALYSIS

<u>SALES</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>INCOME</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
Prior Year Sales	8252.0	8893.5	10,203.1	12,472.1	14,244.0	Prior Year PBT	653.7	742.3	1067.5	1545.6	2027.4
Industry Volume	(90.5)	565.8	665.0	245.0	373.8	Industry Volume	(19.9)	143.7	175.5	82.6	104.2
Market Share	272.4	366.2	557.2	555.0	568.7	Market Share	59.2	87.2	157.5	157.8	169.1
Wholesale Dealer Inventory	156.5	45.9	107.2	89.2	(87.8)	Wholesale Dealer Inventory	34.5	25.7	26.1	21.7	(38.7)
Selling Price	671.2	786.0	952.1	1103.7	1257.5	Selling Price	671.2	786.0	952.1	1103.7	1257.5
Elimination and All Other	(350.8)	(123.0)	(177.4)	(34.9)	(177.3)	Cost Increases	(671.2)	(737.6)	(894.4)	(1021.7)	(1137.9)
Contingencies	(17.3)	(331.3)	164.9	(186.1)	(69.7)	Financial Operations	(0.1)	15.9	30.3	20.8	17.3
SALES	8893.5	10,203.1	12,472.1	14,244.0	16,109.2	Corporate Adjustments	(36.8)	(109.9)	(5.6)	21.2	5.7
						Net Productivity Gain	139.3	206.3	133.5	196.5	184.4
						Contingencies	(87.6)	(92.1)	(96.9)	(100.8)	(79.2)
						PBT	742.3	1067.5	1545.6	2027.4	2509.8

Sales Commentary

Industry Volume - Industry growth will account for \$1698MM (24%) in the change in sales over the planning period. Truck accounts for \$645MM (38%), Components \$352.6MM (21%), Solar \$275MM (16%), AEG \$244MM (14%), and Payline \$183MM (11%). The largest increases are in '81 and '82 reflecting recession recovery.

Market Share - will account for \$2319MM (32%) of the sales growth over the planning period. AEG accounts for \$923MM (40%), Truck \$593MM (26%), Payline \$492 (21%), Components for \$152MM (7%), and Solar \$137MM (6%). The largest share gains are made in '82, '83, and '84.

Selling Price - Selling price effect will grow from \$671MM in 1980 to \$1276MM in 1984 reflecting inflationary pressures.

Income Commentary

Industry Volume - Industry growth will account for 28% of the change in income over the planning period. The low contribution by this factor in '80 and '83 reflects the effect of expected economic slowdown in Truck and Solar.

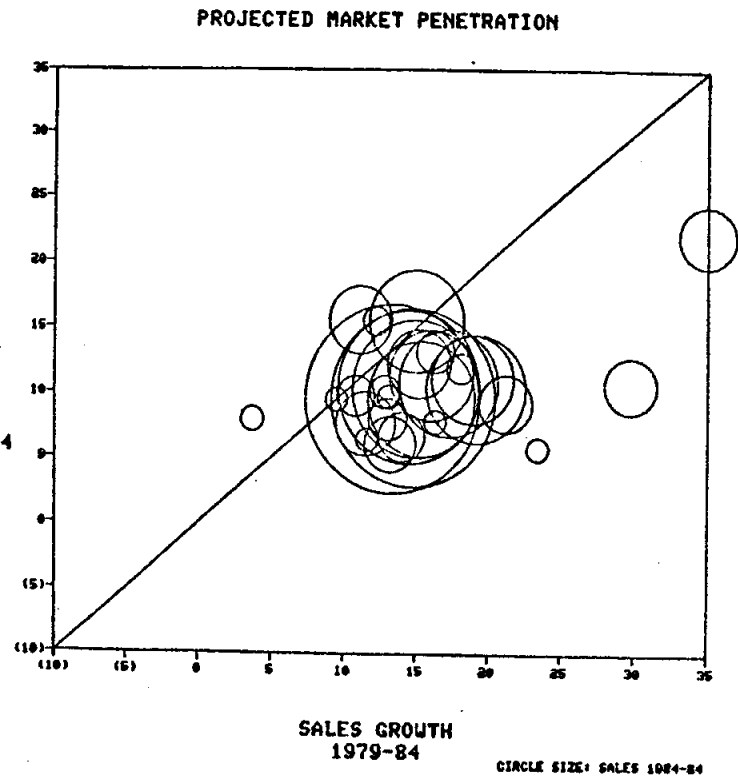
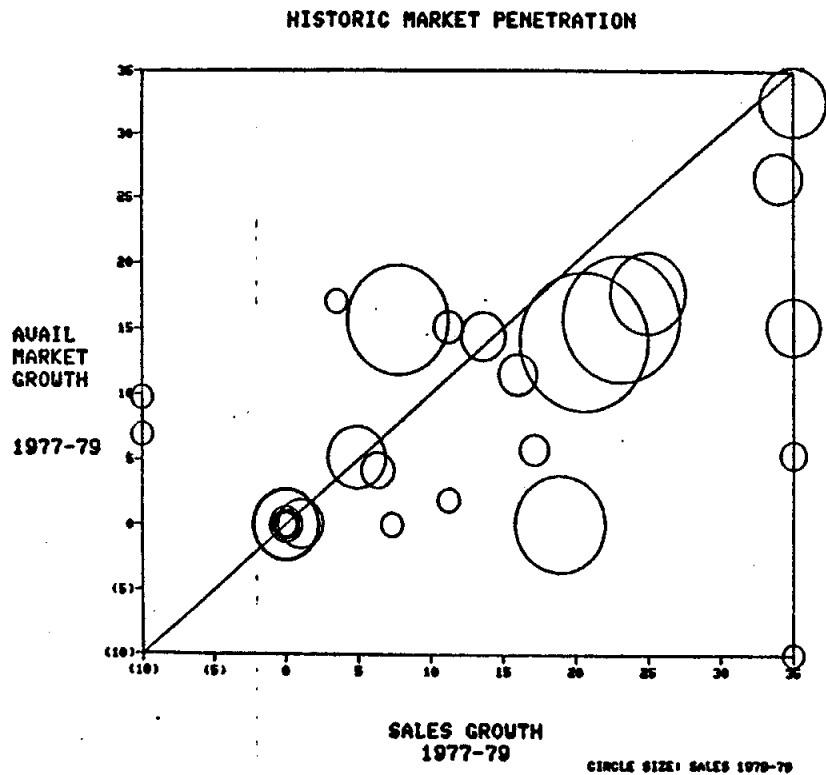
Market Share will account for 36% of the income growth over the planning period. AEG, Payline, and Truck expect to contribute the most in this area due to new product introduction, promotions, and dealer/distributor development.

Cost Inflation - will reduce income and sales, on the average by \$892MM per year over the planning period. AEG has the lowest rate with 7% annual compounded cost inflation while Solar is high in this area with 9% cost inflation in '81 and 7-8% for the remaining years.

Selling Price - will, on the average, contribute \$954.1MM to income over the planning period. Truck and AEG expect 6-7% price inflation, while Solar and Payline forecast between 7-8% price inflation.

Productivity - will contribute an average of \$172MM a year or 4% of the increase in income.

MARKET PENETRATION BY SBU

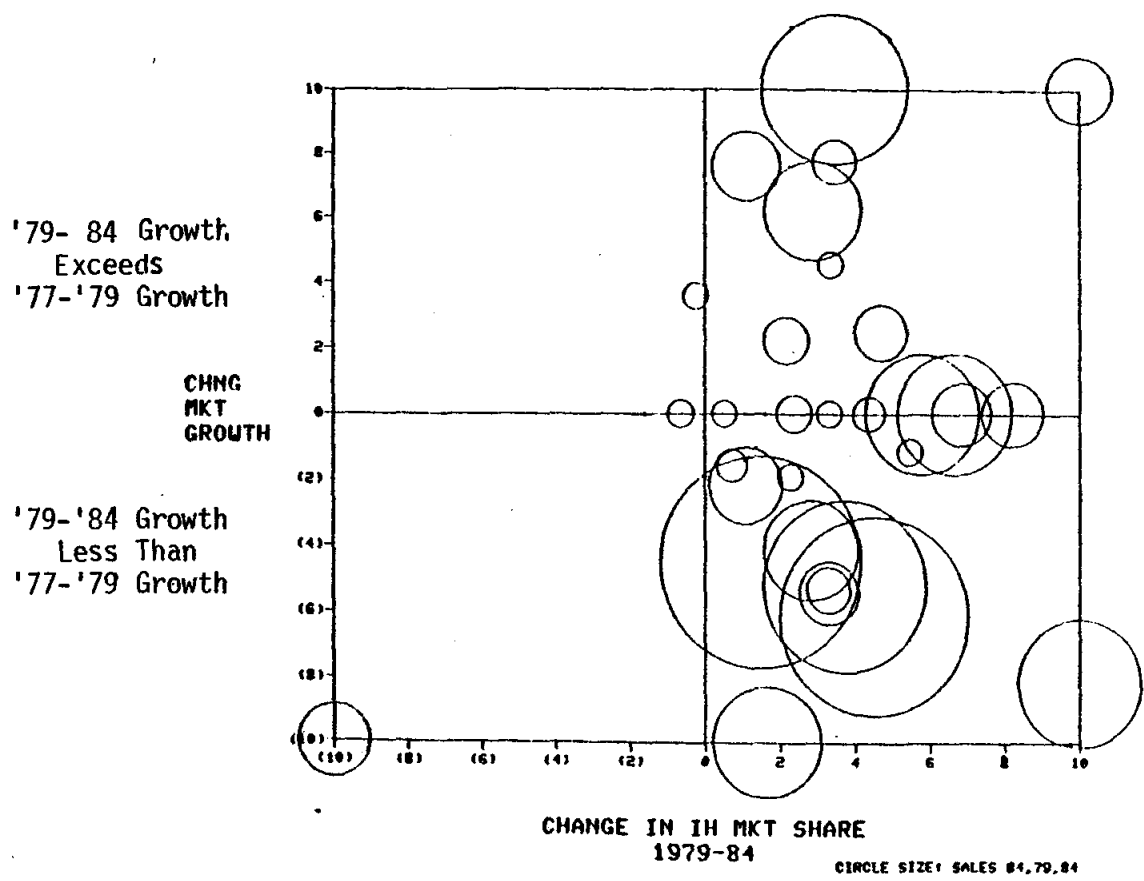


Comments:

- Planned market share gains show the lack of selectivity in choosing which business to push--gains are planned for nearly every SBU from 1979-1984.
- Market growth and SBU sales growth during 1977-1979 show considerably more variability than projected for 1979-1984.

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**PLANNED MARKET SHARE GAIN VERSUS
CHANGE IN MARKET GROWTH FROM 1977-1979 AND 1979-1984**

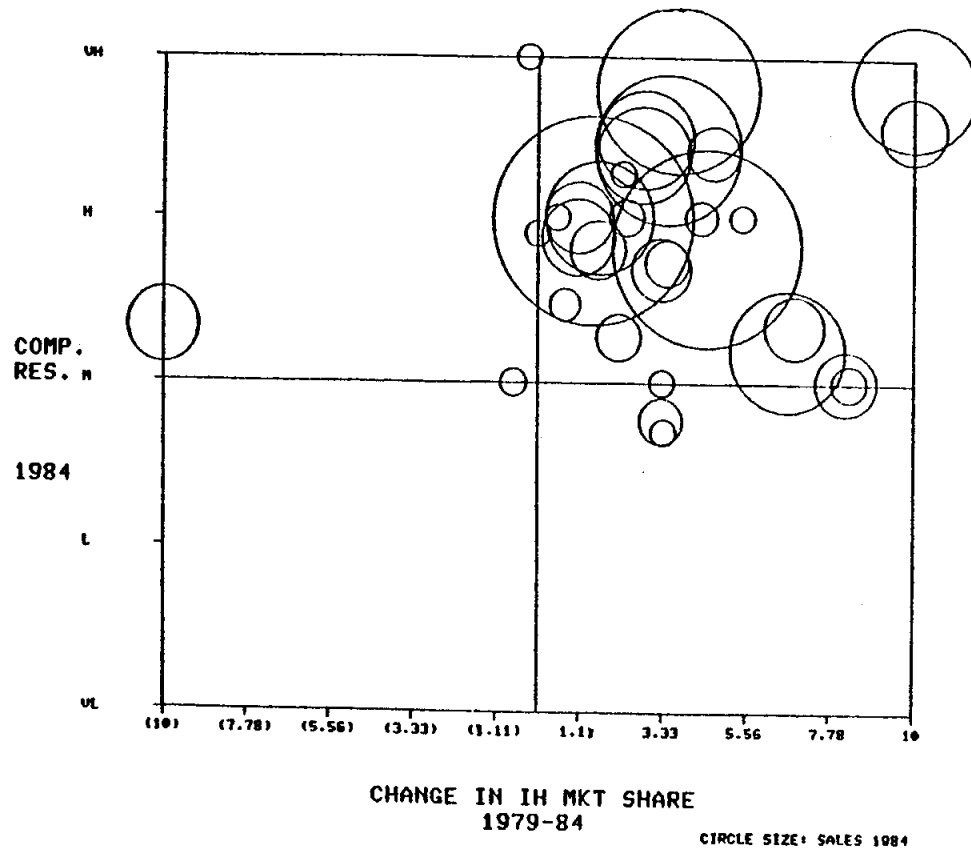


Comments:

- The available markets for most major SBU's are projected to have slower growth from 1979-1984 than from 1977-1979 (lower right quadrant). The slowdown in growth is likely to result in intensified competition during the planning period.
- In terms of overall volume and financial impact, the most important share gains are expected to be achieved by SBU's in markets with the slowing growth rates.

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PLANNED MARKET SHARE GAIN vs. COMPETITIVE RESISTANCE

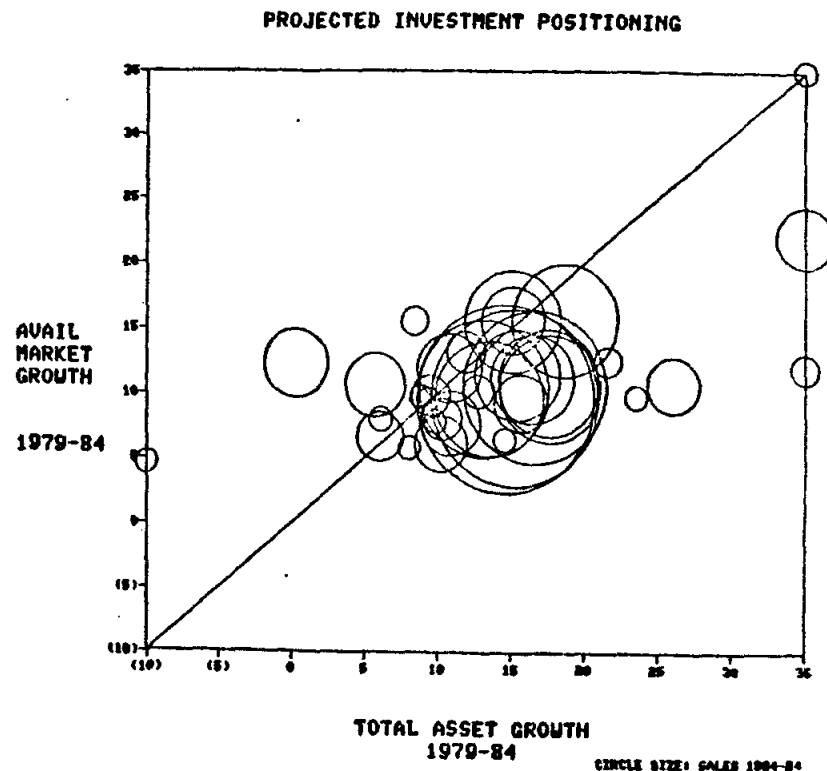
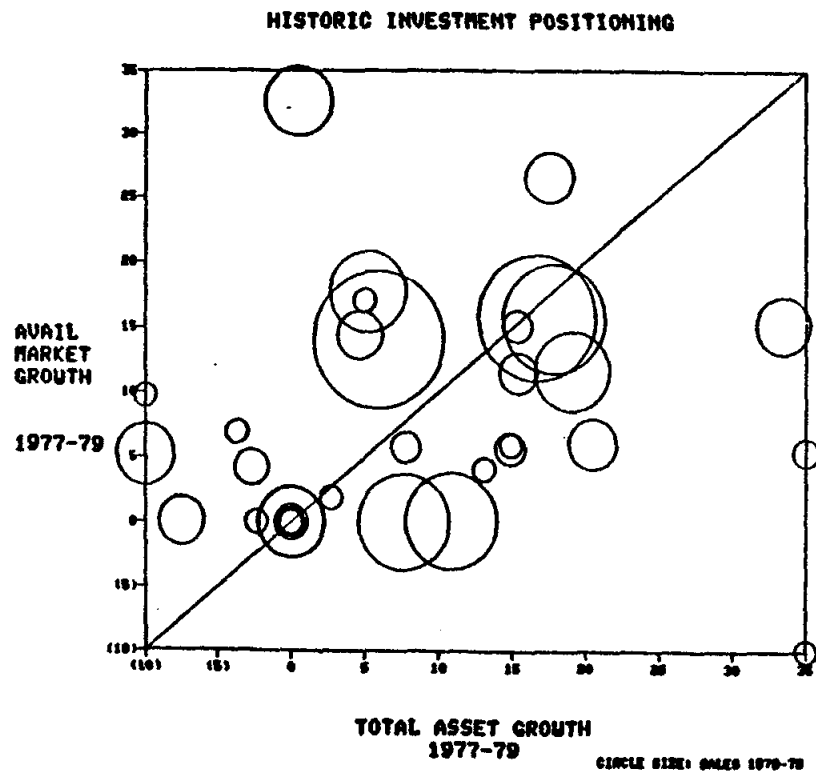


Comments:

Competitive Resistance (as perceived by the Groups) is expected to be high in nearly all markets in which share gains are planned.

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SBU ASSET GROWTH BY MARKET GROWTH

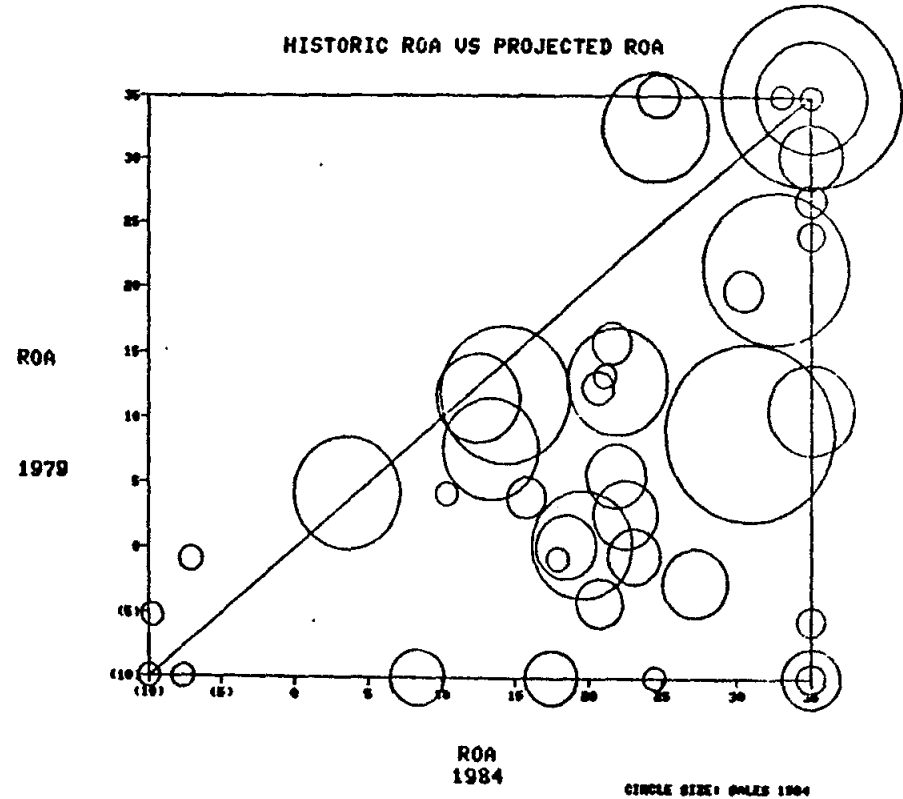
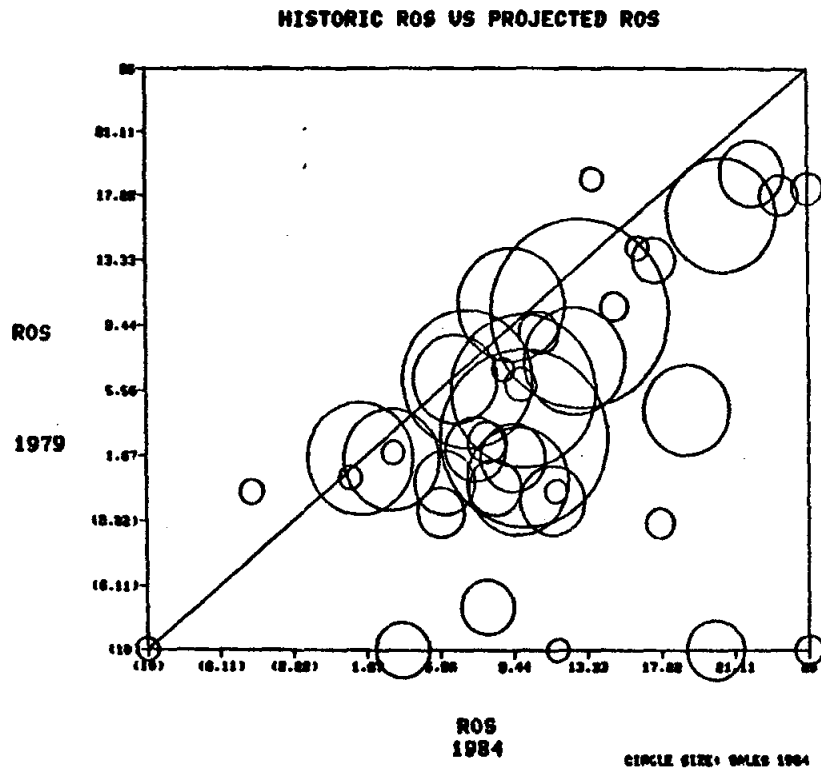


Comments:

- One result of the broad scale nature of the push for market share and growth is reflected in the projected investment positioning chart. The rate of increase of assets required by SBU's substantially exceeds expected market growth rates in nearly all cases.
- The lack of selectivity in growth plans will place a severe strain on cashflow if profitability improvements are not achieved as planned.

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HISTORIC vs. PROJECTED PROFITABILITY BY SBU

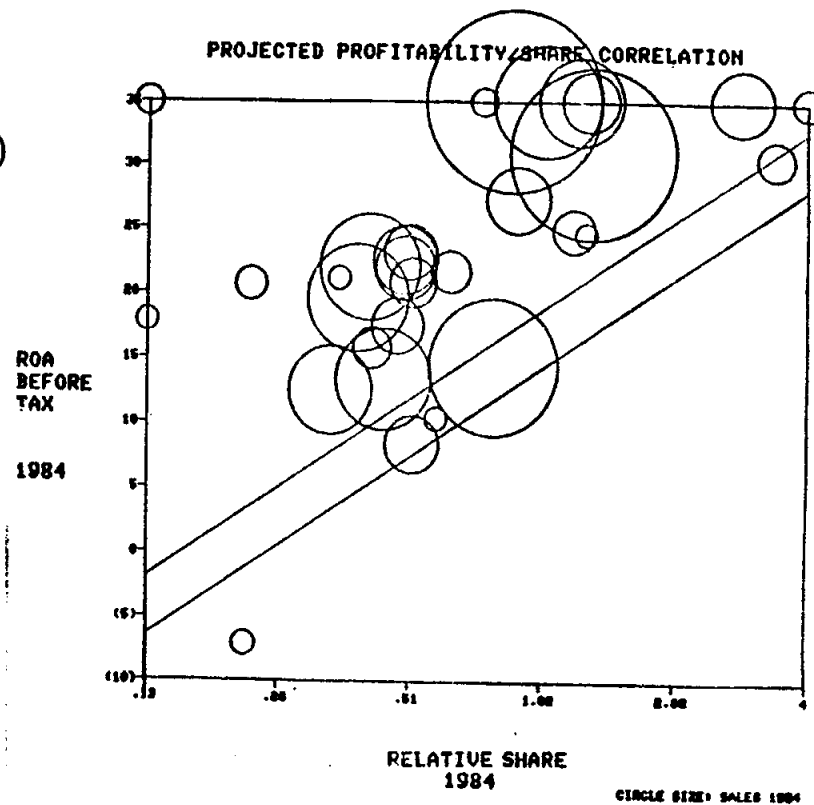
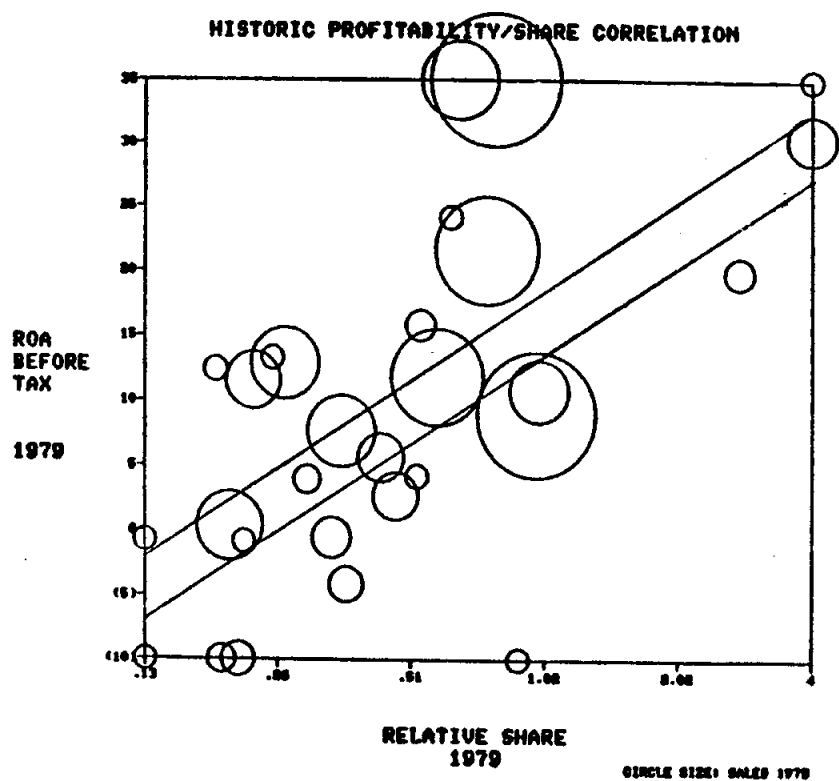


Comments:

- Significant gains in ROS & ROA between 1979 and 1984 are expected by all but a few minor SBU's.
- The lack of SBU's showing a loss in 1984 is in sharp contrast to 1979 -- approximately 20% of the SBU's expect a loss in this year.

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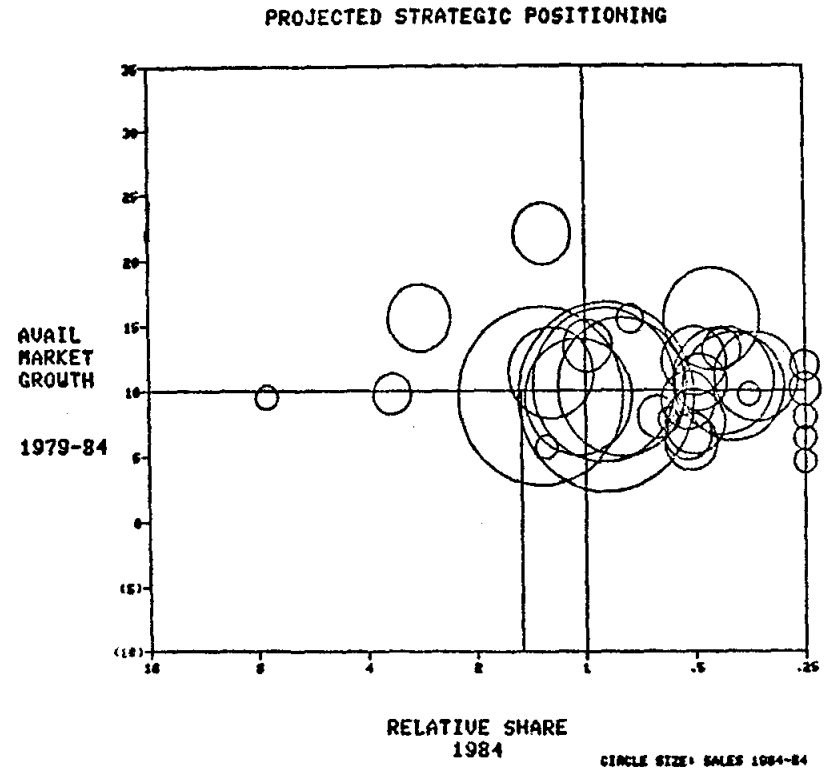
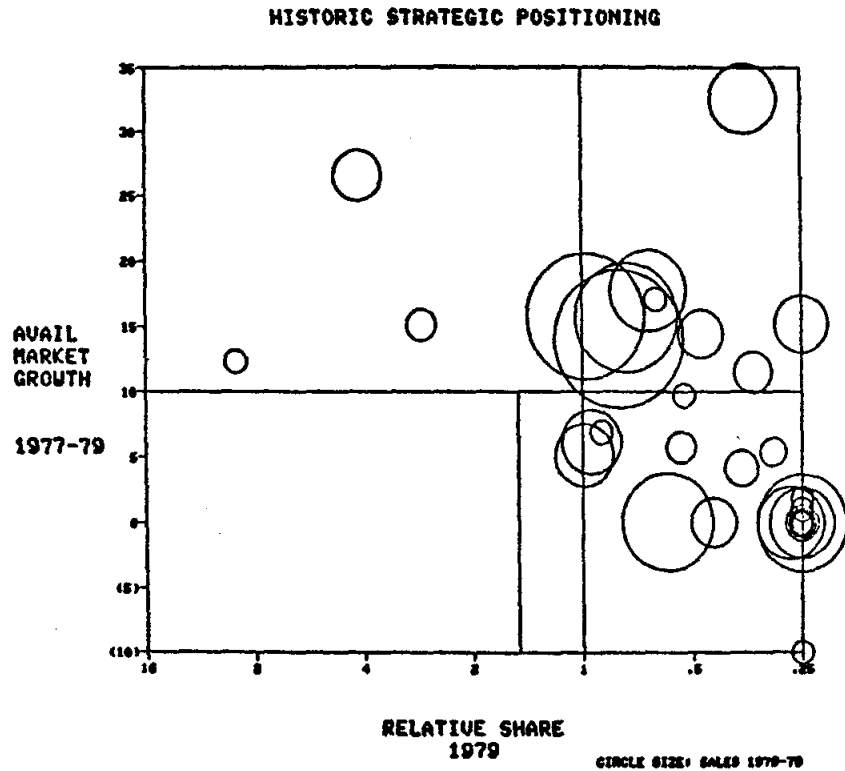
PROFITABILITY/SHARE CORRELATION BY SBU



Comments:

- Historically IH's SBU's have been scattered about an expected "Profitability Corridor" indicating a positive relationship between ROA and relative market share. When analyzed in the aggregate or by separate business segments (as is done in the PIMS data base) similar results are found for many other businesses including IH's major competitors.
- By the end of the planning period nearly all SBU's are expected to have substantially higher profitability than would be indicated by their relative market share.

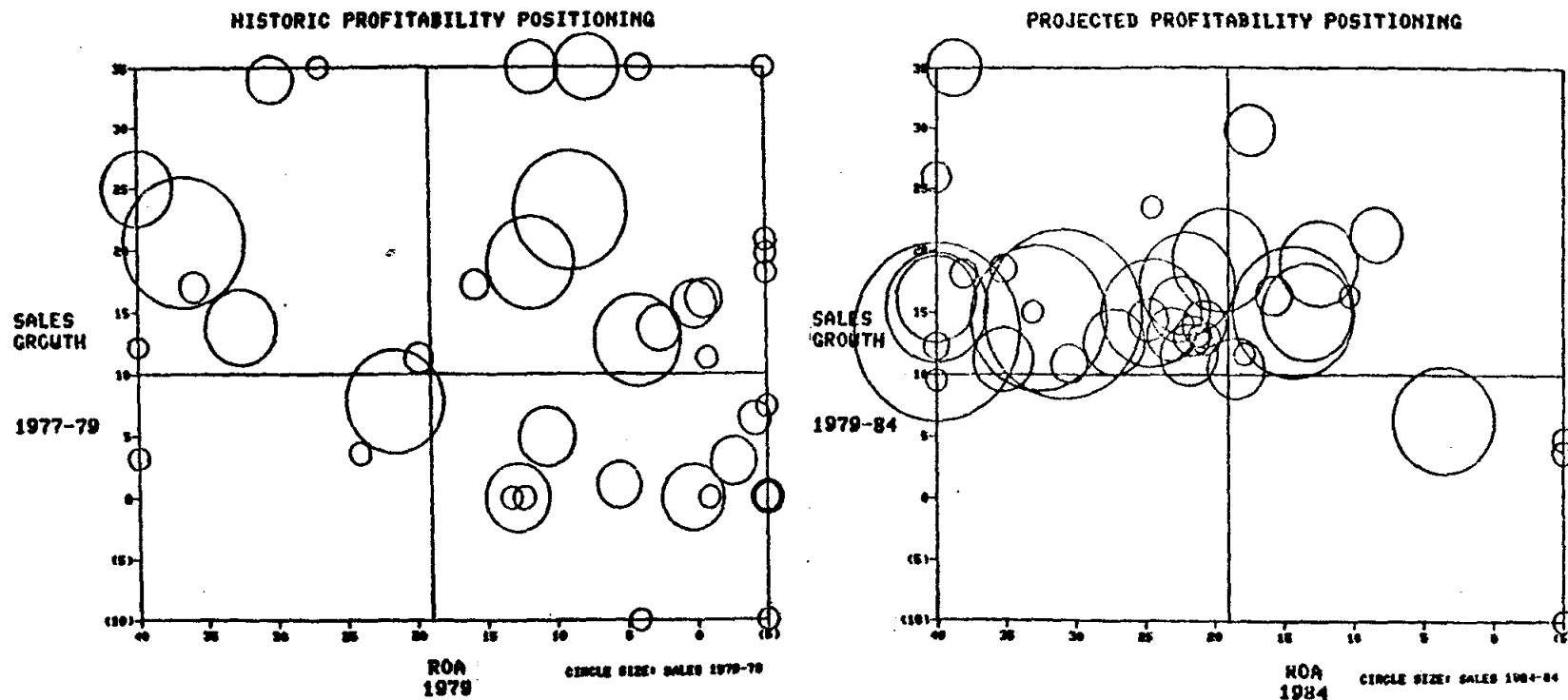
STRATEGIC POSITION BY SBU



Comments:

- The net effect of the overall plans and assumptions is that there is little change in appearance (and reality) of the IH SBU portfolio between 1979 and 1984 when shown in the typical format.
- Few SBU's have a dominant market share in 1979 or in 1984.
- The total lack of dominant share/slow growth businesses, which should be a reliable source of cash to fund new business and programs to improve the competitive positions of existing businesses, is a weakness in both periods.
- The absence of change in the strategic position of IH SBU's shown in the above charts is in sharp contrast to the change shown by plotting SBU sales and profitability in the same format.

PROFITABILITY POSITION BY SBU



Comments:

- The 1979 chart indicates a majority of SBU's are in low profitability quadrants and many are experiencing high growth. This places a severe demand on the remaining SBU's to provide the cash resources required by the Company. This weakness is not offset by slow growth/high profitability SBU's which should be a reliable source of cash in excess of their own needs.
- By 1984 almost all SBU's plan to be in the medium to high growth area with significant improvement in profitability. As seen in the Strategic Position charts, it is assumed that the profitability gain is possible without significant shifts in the relative competitive strength of most SBU's.

If profitability improvement does not come as planned, for whatever reason, there is a high probability that growth plans will have to be scaled back and at least some major programs will have to be interrupted because of lack of adequate resources at an affordable cost.

IH CORPORATE
PRELIMINARY STRATEGIC PLAN
SBU PORTFOLIO COMPOSITION 1979 VS. 1984
KEY DATA SUMMARY

1979
Profitability Position

	% of Total	Percent to Total*	% of Total	Percent to Total*
SALES				
	Sales	29.0%	Sales	42.0%
	Income	67.0	Income	18.0
	Assets	26.0	Assets	43.0
	CE 80-84	29.0	CE 80-84	36.0
	R&D 80-84	25.0	R&D 80-84	41.0
	ROS - %	12.2	ROS - %	2.3
	ROA - %	35.9	ROA - %	5.8
GROWTH				
	% of Total	Percent to Total*	% of Total	Percent to Total*
	Sales	10.0%	Sales	19.0%
	Income	11.0	Income	4.0
	Assets	7.0	Assets	24.0
	CE 80-84	14.0	CE 80-84	21.0
	R&D 80-84	11.0	R&D 80-84	23.0
	ROS - %	6.0	ROS - %	1.0
	ROA - %	22.7	ROA - %	2.1

19% ROA
(Before Tax)

* Based on profiles prior to consolidation.

a) Less than 1%.

1984
Profitability Position

	% of Total	Percent to Total*	% of Total	Percent to Total*
SALES				
	Sales	73.0%	Sales	21.0%
	Income	89.0	Income	11.0
	Assets	71.0	Assets	22.0
	CE 80-84	73.0	CE 80-84	19.0
	R&D 80-84	70.0	R&D 80-84	28.0
	ROS - %	12.8	ROS - %	5.2
	ROA - %	33.1	ROA - %	12.5
GROWTH				
	% of Total	Percent to Total*	% of Total	Percent to Total*
	Sales	a	Sales	6.0%
	Income	a	Income	a
	Assets	a	Assets	7.0
	CE 80-84	0	CE 80-84	8.0
	R&D 80-84	a	R&D 80-84	2.0
	ROS - %	13.7	ROS - %	.5
	ROA - %	66.4	ROA - %	1.2

19% ROA
(Before Tax)

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IH & MAJOR COMPETITORS

RETURN ON SALES RANKING, 1969-1978

RANK	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1	KOMATSU	CAT	CAT	CAT	DEERE	DEERE	CAT	CAT	CAT	CAT
2	CAT	KOMATSU	DEERE	DEERE	CAT	CAT	DEERE	DEERE	DEERE	DEERE
3	DEERE	DEERE	PACCAR	PACCAR	PACCAR	MACK	KOMATSU	PACCAR	PACCAR	PACCAR
4	MACK	FORD	FORD	MACK	KOMATSU	M-F	M-F	M-F	FORD	KOMATSU
5	FORD	PACCAR	MACK	FORD	MACK	KOMATSU	PACCAR	KOMATSU	KOMATSU	FORD
6	PACCAR	MACK	KOMATSU	M-F	FORD*	PACCAR	MACK	FORD	IH	MACK
7	M-F	IH	IH	KOMATSU	M-F*	IH	IH	IH	MACK	IH
8	IH	M-F	M-F	IH	IH	FORD	FORD	MACK	M-F	M-F

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IH AND MAJOR COMPETITORS

RETURN ON SALES TREND^a

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1969-1978 AVERAGE	IH 1984 PLAN
CATERPILLAR	7	7	6	8	8	6	8	8	8	8	7.4	
DEERE	5	4	5	7	8	7	6	8	7	6	6.3	
PACCAR	4	3	5	5	6	3	3	5	5	6	4.5	
KOMATSU	7	5	2	3	5	4	4	4	4	4	4.2	
FORD	4	3	4	4	4	2	1	3	4	4	3.3	
MACK	5	3	4	5	4	4	2	2	3	4	3.6	
IH	2	2	2	3	3	3	2	3	3	3	2.6	8.4
MASSEY FERGUSON	3	(2)	1	3	4	4	4	4	1	(9)	1.3	

^aAfter Tax

IH & MAJOR COMPETITORS

RETURN ON ASSETS RANKING, 1969-1978

RANK	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1	PACCAR	CAT	PACCAR	PACCAR	PACCAR	CAT	CAT	PACCAR	PACCAR	PACCAR
2	CAT	PACCAR	CAT	CAT	CAT	DEERE	DEERE	CAT	CAT	CAT
3	MACK	FORD	FORD	FORD	DEERE	PACCAR	PACCAR	DEERE	FORD	MACK
4	FORD	MACK	MACK	DEERE	MACK	MACK	M-F	FORD	DEERE	FORD
5	KOMATSU	KOMATSU	DEERE	MACK	M-F	M-F	KOMATSU	M-F	IH	DEERE
6	DEERE	DEERE	IH	M-F	IH	IH	MACK	IH	MACK	IH
7	IH	IH	KOMATSU	IH	FORD	FORD	IH	MACK	KOMATSU	KOMATSU
8	M-F	M-F	M-F	KOMATSU	KOMATSU	KOMATSU	FORD	KOMATSU	M-F	M-F

IH & MAJOR COMPETITORS

RETURN ON ASSETS TREND^a

	1969 %	1970 %	1971 %	1972 %	1973 %	1974 %	1975 %	1976 %	1977 %	1978 %	1969-1978 AVERAGE	IH 1984 PLAN
PACCAR	9	7	10	11	13	6	6	11	14	14	10.1	
CATERPILLAR	9	8	7	11	11	8	12	10	10	11	9.7	
DEERE	4	3	4	7	10	8	7	8	8	7	6.6	
FORD	6	5	6	8	7	3	2	6	9	7	5.9	
MACK	6	4	4	7	7	5	2	3	4	8	5.0	
IH	3	2	2	3	4	4	2	5	5	4	3.4	14.5
KOMATSU	6	3	1	2	3	2	2	2	2	3	2.6	
MASSEY FERGUSON	3	(2)	1	4	4	4	5	5	1	(10)	1.5	

^aAfter Tax

V. SENSITIVITY ANALYSIS

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SENSITIVITY ANALYSIS SUMMARY
CUMULATIVE EFFECT 1980-1984 (\$ MILLIONS)

	<u>EFFECT ON CASH FLOW FAVORABLE(UNFAVORABLE)</u>			
	<u>SALES</u>	<u>OPERATING INCOME</u>	<u>NET ASSETS</u>	<u>CASHFLOW</u>
<u>MARKET SHARE</u>				
a. Realized share gain equals 75% of Plan	\$(1,469.6)	\$ (441.3)	\$ 87.2	\$ (81.8)
b. Realized share gain equals 50% of Plan	(2,902.1)	(871.2)	174.2	(159.6)
<u>INFLATION</u>				
a. Variable Cost Inflation equals 8% annually	-	(944.3)	(33.7)	(411.0)
b. Variable Cost Inflation equals 10% in 1980, 8% in 1981, plan thereafter	-	(1,271.5)	(29.1)	(550.2)
<u>PRICE PRODUCTIVITY</u>				
a. Realized Productivity is 85% of Plan. One-half of realized prod. is passed on to customers in the form of reduced prices	(1,524.1)	(2,076.8)	27.9	(804.4)
<u>WORKING CAPITAL</u>				
a. Inventory turnover held constant at 1979 level of 3.8x	-	-	(973.8)	(1,049.0)
b. Inventory turnover improves to 4.2x	-	-	(570.0)	(604.1)

KEY ISSUES

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KEY ISSUES

- I. Downside risk of being unable to fund the Plan if anything "goes wrong"
 - Plan is highly sensitive to assumptions about
 - Pricing
 - Cost Inflation
 - Ability to retain productivity gains
 - Improvement in working capital turnover
- II. Need for selectivity in deciding which SBU's to push for growth
 - Across-the-board push not likely to be as successful as planned and probably cannot be funded at a reasonable cost
- III. Need for explicit priorities in resource allocation
 - Importance of core businesses and possible need for quantum increases in investment
 - Importance of relative competitive position in assessing risk/opportunity for profit improvement
 - Importance of innovation *eg. Axial Flow - 2+2 Tractor*
- IV. Lack of growth markets in IH's portfolio--dominance of highly capital intensive SBU's
- V. Importance of managerial control/information systems
 - Explosion of spending programs
 - Turmoil in accounting/reporting/planning systems
- VI. Adequacy of Human Resources
 - Acquisition of adequate numbers of qualified personnel to support growth plans
 - Ability of Groups to integrate new personnel within requirements of Plan
- VI.. Group related issues
 - Truck manufacturing facilities strategy
 - Medium Duty SBU profitability
 - Scout Decision
 - Axial Flow decision outside NAO
 - TR Program monitoring and control
 - Payline Plan Risk
 - Poor profitability of equipment without parts
 - Host/guest organization

eg AG TRACTORS

$\Delta MAE '79-80 = \$160MM$
 $\Delta " 80-81 = 200MM$
 $\Delta R\&D 79-80 = 50m$
 $80-81 45m$

Increase (Decrease)

Preliminary Strategic Plan 1980-1984

Share Gain Sensitivity (\$ Millions)

<u>Assumption</u>	<u>Variable</u>	<u>EFFECT FAVORABLE(UNFAVORABLE) TO CASH FLOW</u>					<u>Cum.</u>
		<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	
Realized Share Gain Equals 75% of Plan	Sales	(8.9)	(51.0)	(304.3)	(480.4)	(625.1)	(1469.7)
	Operating Income	(2.4)	(14.7)	(89.1)	(144.4)	(190.7)	(441.3)
	Net Assets	1.3	7.2	42.8	67.2	87.2	-
	. Accounts Receivable	0.7	4.1	24.6	38.9	50.4	-
	. Inventory	2.0	11.2	66.5	103.6	134.1	-
	Current Liabilities	(1.4)	(8.1)	(48.3)	(75.3)	(97.3)	-
	Cash Flow(Cumulative)	0.2	0.4	2.3	(28.4)	(81.8)	(81.8)
Realized Share Gain Equals 50% of the Plan	Sales	(17.2)	(77.9)	(603.4)	(955.2)	(1248.4)	(2902.1)
	Operating Income	(4.7)	(22.5)	(175.9)	(287.2)	(380.9)	(871.2)
	Net Assets	2.5	11.0	84.9	133.7	174.2	-
	. Accounts Receivable	1.4	6.3	48.9	77.4	101.1	-
	. Inventory	3.9	17.1	131.9	206.1	267.6	-
	Current Liabilities	(2.8)	(12.4)	(95.9)	(149.8)	(194.5)	-
	Cash Flow(Cumulative)	0.6	0.4	7.4	(53.6)	(159.6)	(159.6)

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Backup

Increase (Decrease)

IH Preliminary Strategic Plan 1980-1984 (millions)

Inflation Sensitivity

<u>Assumption</u>	<u>Variable</u>	<u>1980</u>	<u>EFFECT FAVORABLE(UNFAVORABLE) TO CASH FLOW</u>				<u>Cum.</u>
			<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	
Variable cost Inflation equals 8% annually	Sales	0	0	0	0	0	0
	Operating Income	(6)	(92)	(177.6)	(268.6)	(400.1)	(944.3)
	Net Assets	(.5)	(7.8)	(15.0)	(22.6)	(33.7)	-
	. Accounts Receivable	0	0	0	0	0	-
	. Inventory	(1.8)	(28.4)	(54.8)	(82.9)	(123.4)	-
	Current Liabilities	1.3	20.6	39.8	60.3	89.7	-
	Cash Flow (Cumulative)	(3.0)	(47.3)	(125.4)	(240.3)	(411)	(411)
Variable Cost Inflation equals 10% 1980, 8% 1981, plan thereafter	Sales	0	0	0	0	0	0
	Operating Income	(125.6)	(224.2)	(270.7)	(306.2)	(344.8)	(1271.5)
	Net Assets	(10.6)	(18.9)	(22.8)	(25.8)	(29.1)	-
	. Accounts Receivable	0	0	0	0	0	-
	. Inventory	(38.7)	(69.2)	(83.5)	(94.5)	(106.4)	-
	Current Liabilities	28.1	50.3	60.7	68.7	77.3	-
	Cash Flow (Cumulative)	(62.5)	(162.2)	(276.2)	(404.6)	(550.2)	(550.2)

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BACKUP

IH Strategic Plan 1980-1984

Increase (Decrease)

Price/Productivity Sensitivity (\$ Millions)

<u>Assumption</u>	<u>Variable</u>	<u>EFFECT FAVORABLE(UNFAVORABLE) TO CASH FLOW</u>					<u>Cum.</u>
		<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	
Realized Productivity is 85% of the Plan. ½ Realized Productivity is passed on to customers in the form of reduced prices	Sales	(73.6)	(187.7)	(296.)	(418.4)	(548.4)	(1524.1)
	Operating Income	(102.6)	(256.9)	(403.4)	(569)	(744.9)	(2076.8)
	Net Assets	3.5	9.4	14.9	21.2	27.9	-
	. Accounts Receivable	6.0	15.2	24.0	33.9	44.4	-
	. Inventory	(8.9)	(21.3)	(33.0)	(46.5)	(60.6)	-
	Current Liabilities	6.4	15.5	24.1	33.8	44.1	-
	Cash Flow(Cumulative)	(38.5)	(136.1)	(292)	(512.7)	(804.4)	(804.4)
Share gain=½ plan Productivity= 85% of plan ½ productivity lost to price discounts, Variable Cost inflation = 8%	Sales	(82.2)	(238.3)	(599.9)	(898.4)	(1173.0)	(2991.8)
	Operating Income	(110.9)	(363.6)	(670.0)	(982.0)	(1335.5)	(3462.0)
	Net Assets	4.2	8.7	42.7	65.7	81.3	-
	. Accounts Receivable	6.7	19.3	48.6	72.8	95.0	-
	. Inventory	(8.9)	(38.6)	(21.5)	(25.8)	(50.1)	-
	Current Liabilities	6.4	28.2	15.6	18.7	36.4	-
	Cash Flow(Cumulative)	(41.3)	(182.8)	(414.8)	(781.5)	(1299.3)	(1297.3)

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BACKUP