

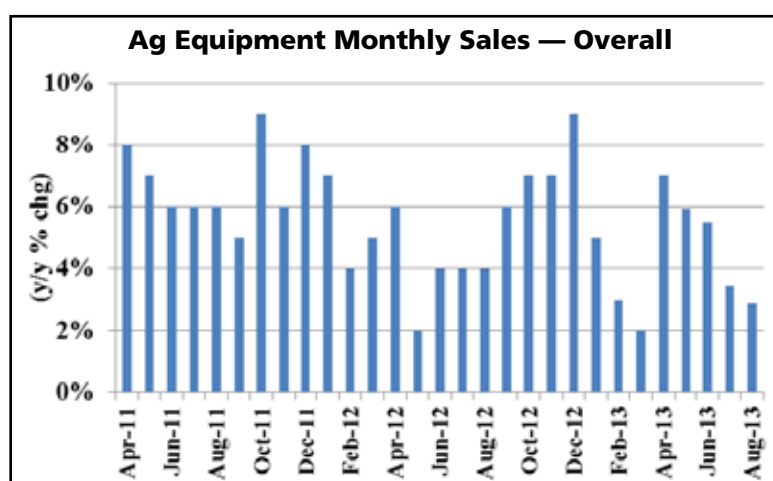
Dealer Sentiment & Business Conditions Update

From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Stabilize in August, Incoming Orders Grow

- ✓ Ag equipment dealers reported year-over-year sales grew 3% on average in August, similar to July.
- ✓ Case IH dealers saw the highest growth at 12%, while John Deere was the weakest with sales down 7%.
- ✓ A net 13% (33% better, 47% inline, 20% worse) of dealers reported better than expected results for August, down from last month's reading of 23%.
- ✓ A net 59% of dealers reported used combine inventory levels are "too high" (59% too high; 41% about right; 0% too low). This is the highest net percentage of dealers reporting high used combine inventory since we started tracking this data point in October of 2011 (above last month's net 54% responding "too high").
- ✓ A net 7% of dealers categorize their new inventory as "too high" (23% too high; 61% about right; 16% too low), vs. 9% of dealers last month who categorized their new inventory as "too low." This is the highest reading since July 2012.
- ✓ Incoming orders grew 2% on average in August, up from July's reading of flat orders year-over-year.



Results vs. Expectations																								
	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Better than expected	29%	35%	32%	41%	28%	19%	20%	24%	22%	23%	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	38%	33%
In line with expected	56%	48%	54%	47%	56%	54%	66%	63%	52%	51%	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	48%	47%
Worse than expected	15%	17%	13%	12%	16%	26%	14%	14%	25%	26%	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	14%	20%
Net %	14%	18%	19%	29%	12%	-7%	7%	10%	-3%	-3%	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	23%	13%

2013 Dealer Outlook Unchanged

- ✓ For 2013, dealers are forecasting 3% sales growth, inline with the 3% forecasted in July.
- ✓ For 2014, early dealer indication is that sales will be flat to down, depending on geography.
- ✓ Shortline dealers are the most optimistic (5%), while the Case IH dealers hold the weakest outlook (-5%).

Dealer Outlook																					
(% chg y/y)	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
	2012 Outlook								2013 Outlook												
Overall	3%	5%	5%	4%	6%	3%	4%	3%	4%	3%	2%	4%	2%	4%	3%	5%	5%	3%	3%	3%	
By Brand	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
AGCO	4%	6%	7%	3%	8%	7%	6%	2%	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%
John Deere	2%	6%	6%	4%	9%	5%	9%	7%	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%
New Holland	4%	2%	3%	4%	3%	1%	1%	0%	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%
Case IH	3%	3%	2%	3%	3%	-1%	-1%	-1%	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%
Kubota	6%	4%	4%	3%	3%	4%	6%	-1%	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%
Shortlines	2%	2%	3%	6%	4%	7%	5%	2%	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%
Other	7%	5%	3%	4%	3%	5%	-2%	2%	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%

Dealer Optimism Falls in August

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw a steep drop in August. A net 12% of dealers reported a less optimistic outlook for the year (19% more optimistic; 50% same; 31% less optimistic). This is compared to a net 0% of dealers in July who reported a more optimistic outlook.

Optimism/Sentiment vs. Last Month																									
	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
More Optimistic	30%	25%	36%	33%	30%	38%	29%	25%	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%	21%	19%
Same	55%	58%	55%	55%	54%	53%	57%	59%	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%	58%	50%
Less Optimistic	15%	17%	9%	12%	16%	10%	14%	17%	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%	21%	31%
Net %	15%	8%	26%	21%	14%	29%	15%	8%	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%	0%	-12%

COMMENTARY

USDA Forecast Improves to 11% Decline in 2013-14 Cash Receipts

The updated August USDA cash receipts outlook for 2013 is up slightly to down 11% over 2012, slightly better than the down 12% from last month. If historical trends hold, this would imply that 2014 could be a challenging year for equipment demand vs. 2013, as the correlation between equipment sales and cash receipts has provided a good proxy for future equipment demand.

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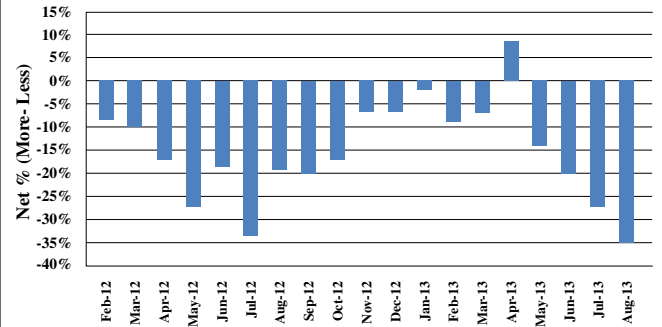
NEW EQUIPMENT TRENDS

Current Manufacturer Incentive Programs vs. Last Month



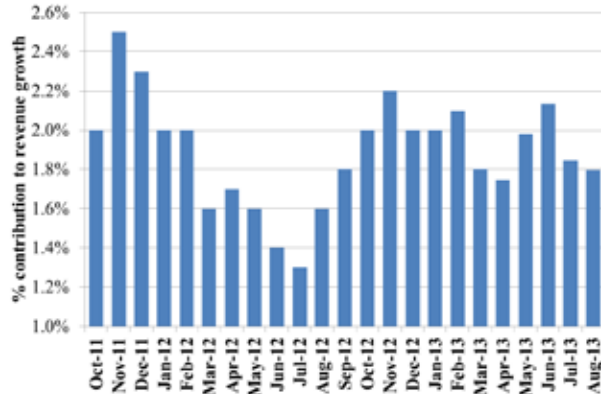
A net 2% of dealers report that manufacturers are more aggressive with incentives in August (14% more aggressive; 74% same; 12% less aggressive) compared to 12% reporting less aggressiveness in July.

New Combine Order Intentions vs. Last Year



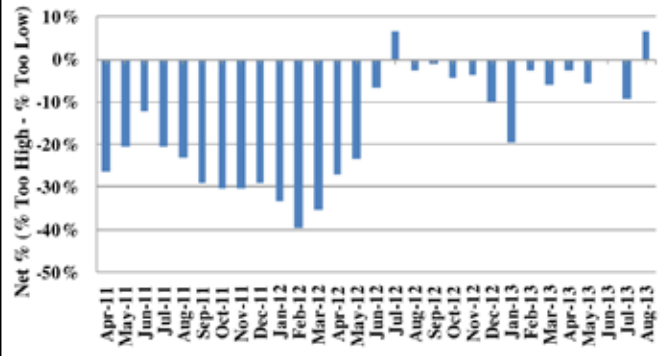
A net 35% of dealers believe they will order fewer combines compared to last year vs. 27% believing they would order fewer combines last month. This is the fourth consecutive month for double-digit decline in new combine order intentions.

Price Contribution to Sales



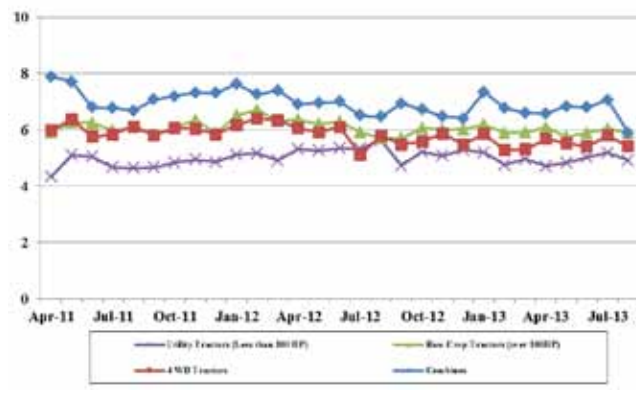
Dealers report price contributed roughly 1.8% to total August revenue growth, similar to the prior month. We would expect this trend to move higher in the coming months as new Model Year price increase announcements are made, as well Tier 4 Final price increases.

Industry Inventory Levels New Equipment



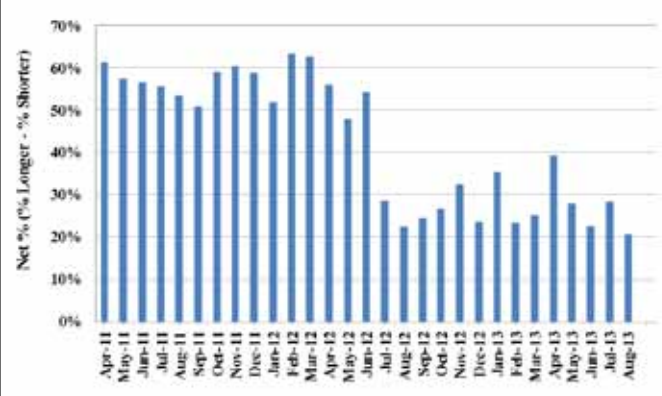
A net 7% of dealers categorize their new inventory as "too high" (23% too high; 61% about right; 16% too low), vs. 9% of dealers last month who categorized their new inventory as "too low." This is the highest reading since July 2012.

Lead Times by Product Category (Months)



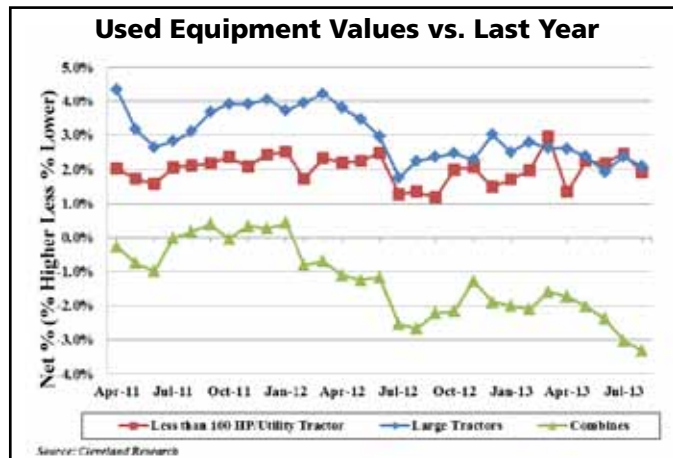
Overall, a net 21% of dealers report longer factory lead-times compared to last month (32% longer; 58% same; 11% shorter), down from a net 28% last month.

Lead Times vs. Prior Month

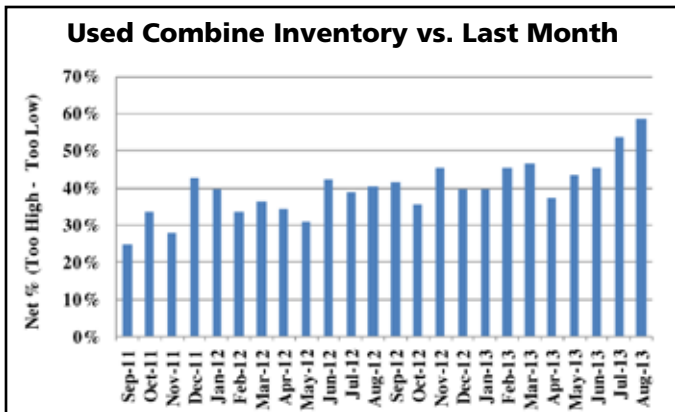


Shorter lead times for all categories were reported this month. On average, combine lead times are 5.9 months; 4WD are 5.4 months; row-crop tractor lead times are 5.9 months; and smaller tractors (<100 HP) lead times are 4.9 months.

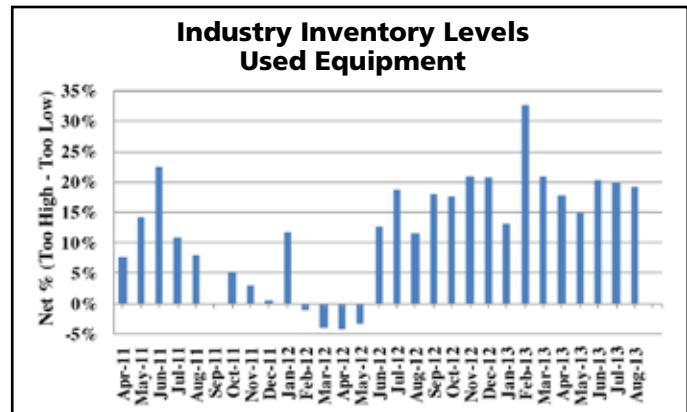
USED EQUIPMENT TRENDS



By category, used prices for tractors over 100HP are up 2.1% year-over-year on average, down from 2.4% reported last month. Prices for used tractors under 100HP are up 1.9%, down from 2.5% the prior month. Used combine values continue to decline and are down 3.3%, compared to down 3% last month.

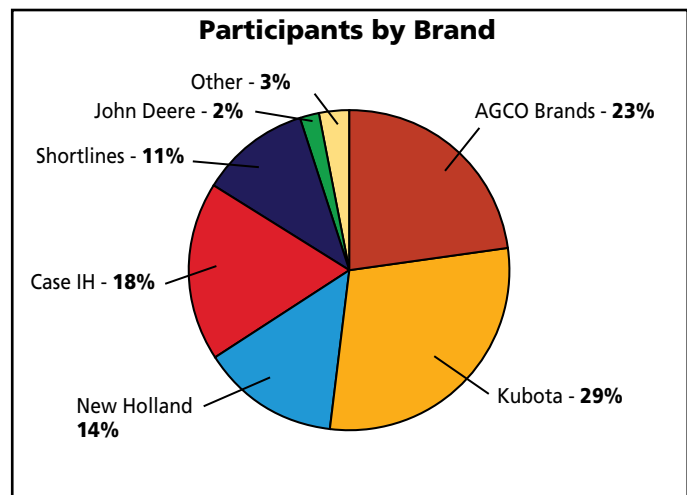
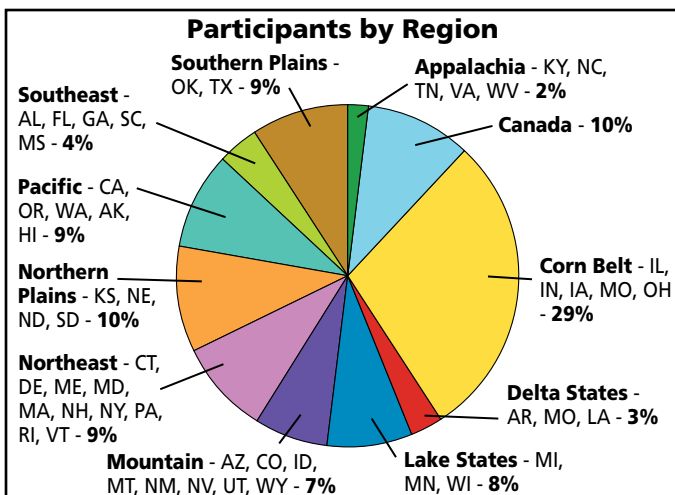


A net 59% of dealers reported used combine inventory levels are "too high." This is the highest net percentage of dealers reporting high used combine inventory since we started tracking this data point in October of 2011.



Used equipment inventory remains high as a net 20% of dealers categorize their used inventory levels as "too high" (35% too high; 50% about right; 15% too low), about the same compared to last month.

SEPTEMBER 2013 SURVEY RESPONDENTS



The September survey had approximately 98 respondents representing combined annual revenues of roughly \$4.72 billion, covering a broad cross section of geographies and brands.