

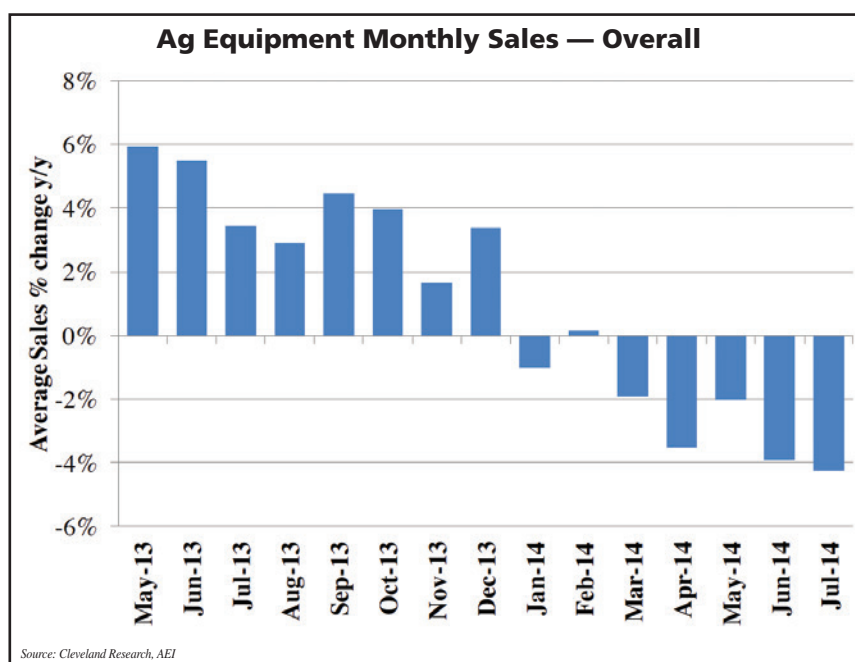
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 4% in July, Incoming Orders Decline 9%

- ✓ Ag equipment dealers reported sales were down 4% year-over-year on average in July.
- ✓ AGCO and "Other" dealers bucked the trend of declining sales, both reporting mid-single-digit growth for the month on average.
- ✓ Sales were inline with plan in July, similar to last month, as most dealers were expecting modest declines.
- ✓ A net 16% of dealers categorize their new equipment inventory as "too high" (32% too high; 52% about right; 16% too low), inline with last month.
- ✓ A net 51% of dealers reported used combines inventories were "too high", compared to a net 49% last month.
- ✓ Incoming orders declined 9% on average in July, slightly below the 8% average decline year-over-year in June.



Results vs. Expectations															
	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	July-14
Better than expected	23%	19%	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%	26%
In line with expectations	57%	58%	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%	49%
Worse than expected	20%	23%	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%	26%
Net % (Better - Worse)	3%	-4%	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%

2014 Dealer Outlook Steady at Down 6%

- ✓ For 2014, dealers are expecting a 6% sales decline, inline with dealer expectations last month.
- ✓ AGCO and "Other" dealers were again the most optimistic, projecting modest growth in 2014, while Case IH dealers are forecasting the largest sales declines at down 9% year-over-year on average for 2014.

Dealer Outlook															
(% chg y/y)	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
2013 Outlook					2014 Outlook										
Overall	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%	-3%	-4%	-4%	-6%	-6%
By Brand	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
AGCO	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%	2%	0%	0%	-1%	2%
John Deere	8%	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%	-3%	-3%	-2%	-6%	-6%
New Holland	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%	-1%	-6%	-9%	-3%	-3%
Case IH	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%	-5%	-6%	-9%	-11%	-9%
Kubota	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%	-2%	-2%	-10%	-3%	-4%
Shortlines	3%	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%	-4%	1%	-2%	-8%	-2%
Other	3%	1%	4%	1%	2%	2%	NA	0%	3%	3%	7%	NA	NA	-4%	3%

Dealer Optimism Declines

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw a significant drop in July. A net 29% of dealers reported a less optimistic outlook for the year (13% more optimistic, 45% the same, 42% less optimistic). This is compared to a net 11% of dealers who reported a less optimistic outlook in June.

Optimism/Sentiment vs. Last Month															
	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14
More Optimistic	27%	26%	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%	13%
Same	52%	50%	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%	45%
Less Optimistic	21%	24%	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%	42%
Net % Dealer Optimism	6%	2%	1%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-29%

COMMENTARY

USDA Forecast Remains at 12% Decline for 2013-14 Cash Receipts

The updated August USDA cash receipts outlook for 2013-14 was unchanged at down 12% year-over-year. The 2014-15 cash receipts outlook was revised slightly to down 10% vs. down 9% last month. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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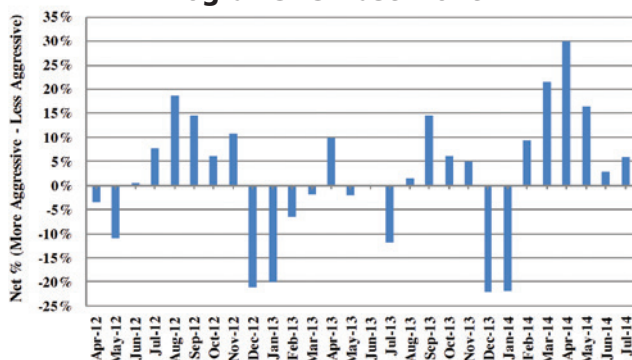
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NEW EQUIPMENT TRENDS

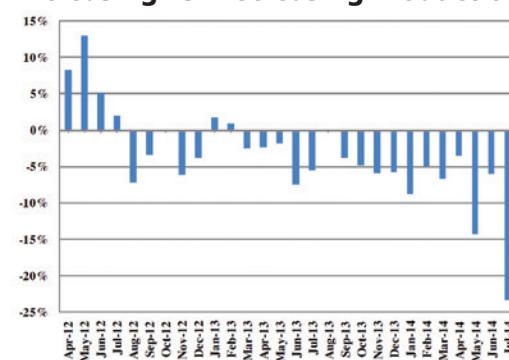
Current Manufacturer Incentive Programs vs. Last Month



Source: Farm Equipment Magazine Survey

A net 6% of dealers report manufacturers were more aggressive with incentives in July (21% more aggressive; 64% the same; 15% less aggressive) vs. a net 3% reporting more aggressive incentives last month.

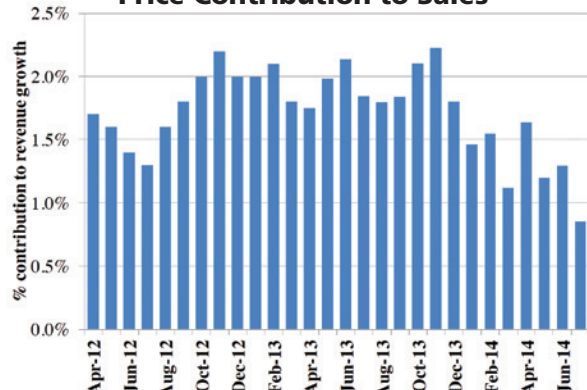
Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production



Source: Farm Equipment Magazine Survey

A net 23% of dealers report factory production was down compared to last month, representing a significant step down from the net 6% reporting lower production levels last month.

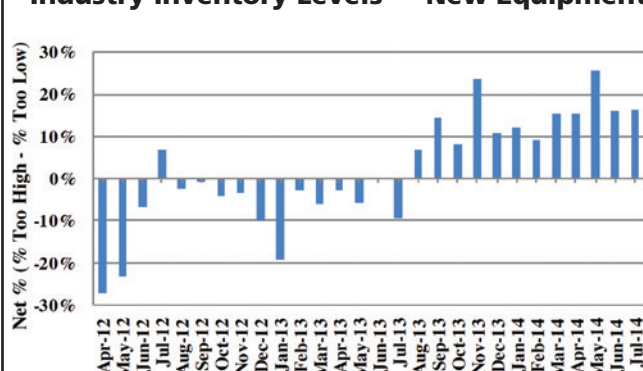
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 0.9% to total July revenue growth vs. the 1.3% in June. Final Tier 4 price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

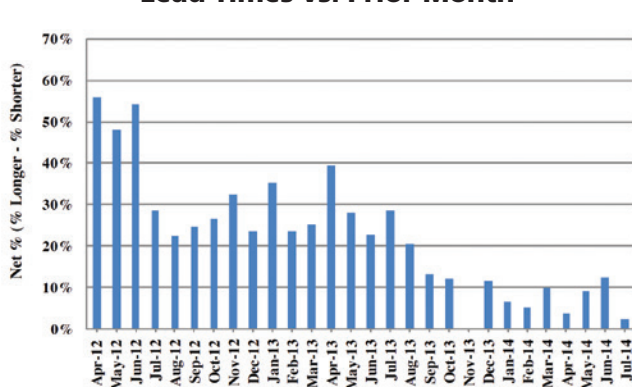
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 16% of dealers categorize their new equipment inventory as "too high" (32% too high; 52% about right; 16% too low), inline with last month.

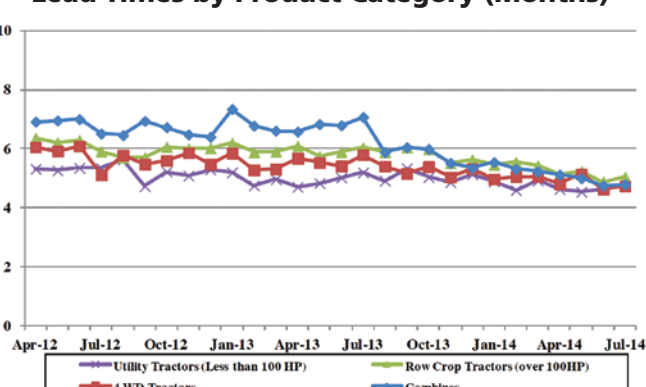
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 2% of dealers report longer factory lead times compared to last month (24% longer; 54% the same; 22% shorter), below the 12% reporting longer lead times last month.

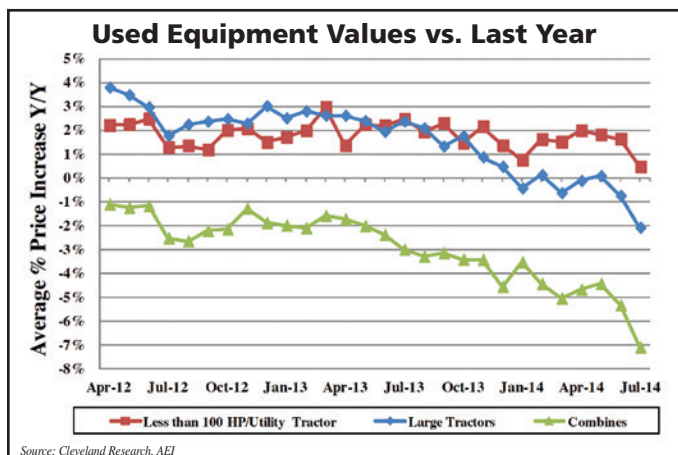
Lead Times by Product Category (Months)



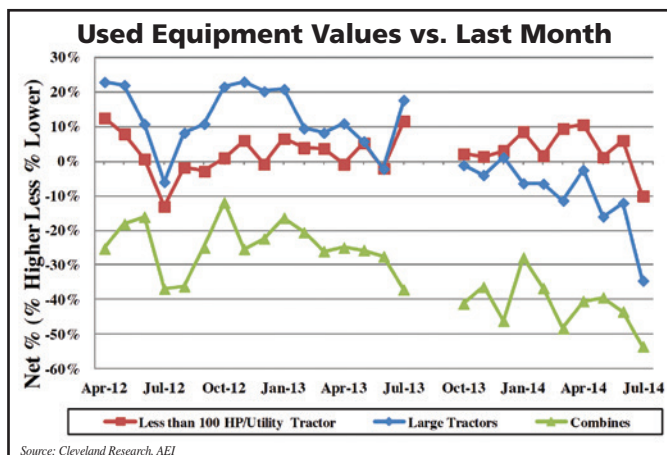
Source: Cleveland Research, AEI

On average, lead times overall in July were similar with those seen in June. Combine lead times were 4.8 months on average, row-crop tractor leads are 5 months and 4WD tractors are 4.7 months.

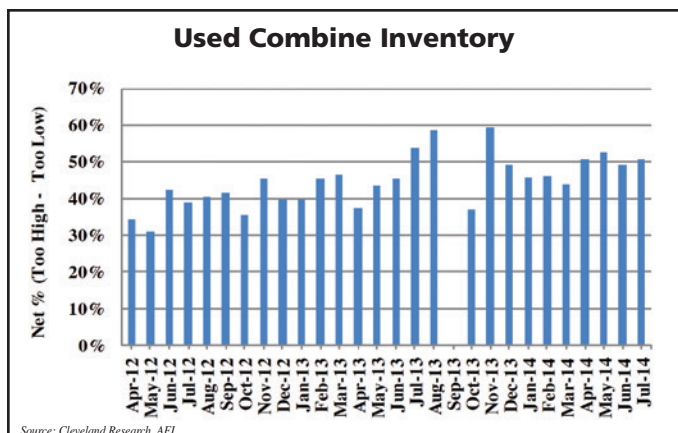
USED EQUIPMENT TRENDS



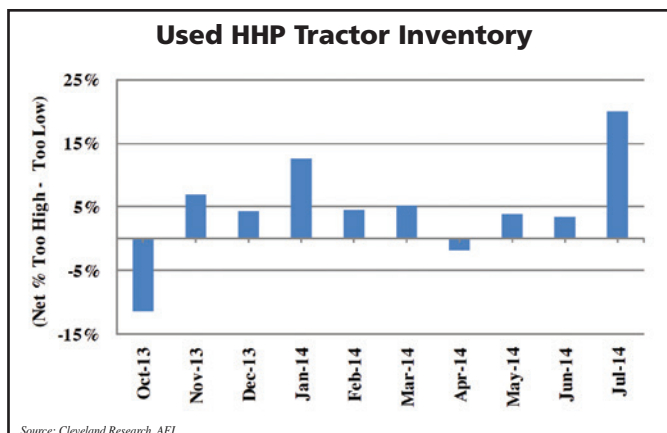
Used equipment values in July were reported as falling both year-over-year and on a month-by-month basis. Combine values were reported at down 7.1% year-over-year vs. down 5.4% last month, while used high horsepower tractor values are reported at down 2.1%



Used tractor values under 100 hp are still positive year-over-year (up 0.5% in July vs. up 1.6% in June).

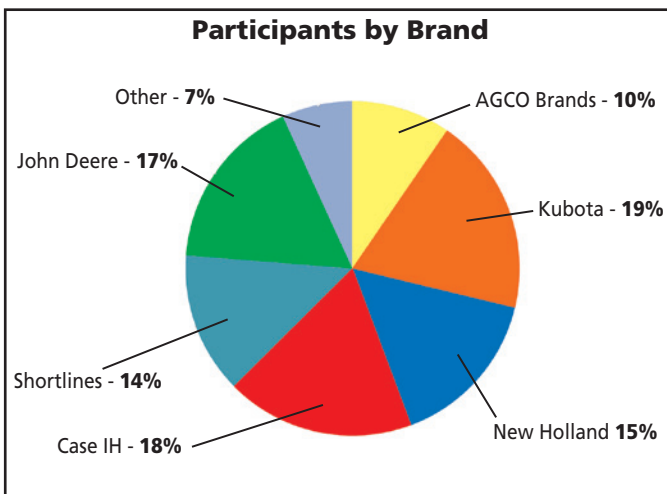
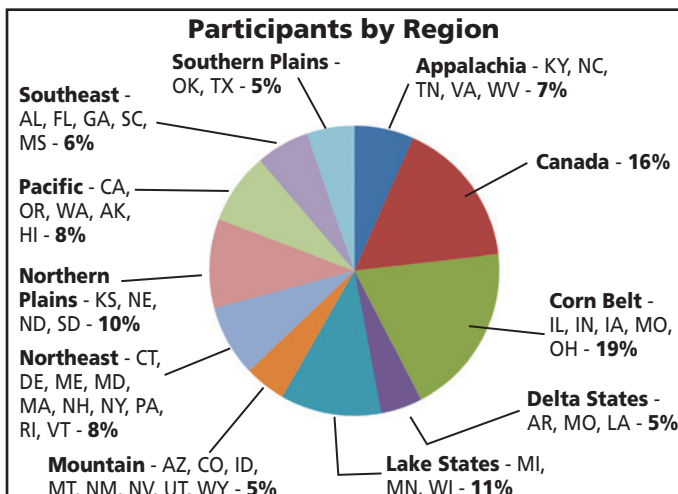


A net 51% of dealers reported used combines inventories were "too high" in July vs. 49% in June who reported inventories were "too high."



Used high horsepower tractor inventories were reported at much higher levels vs. last month, with a net 20% reporting "too high" compared to a net 3% last month.

AUGUST 2014 SURVEY RESPONDENTS



The August survey had approximately 155 respondents representing combined annual revenues of roughly \$5.9 billion, covering a broad cross section of geographies and brands.