

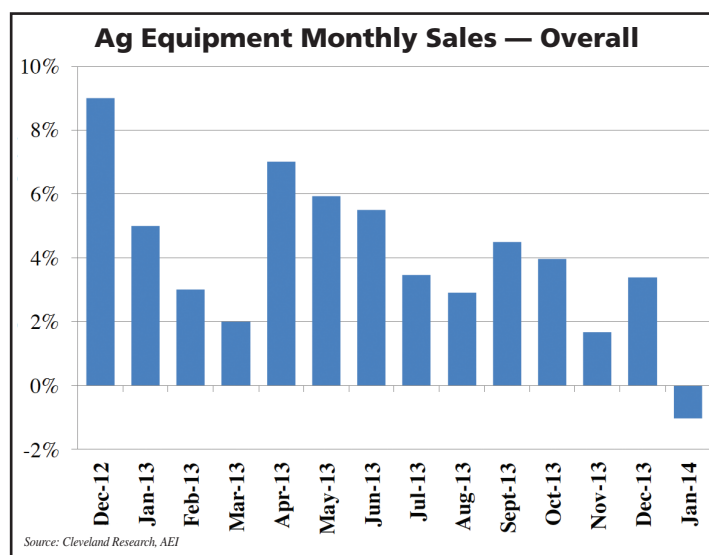
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 1% in January, Incoming Orders Decline by 3%

- ✓ Ag equipment dealers reported sales declined 1% year-over-year on average in January, the first monthly decline in sales since we began the survey in April 2011.
- ✓ "Other" dealers reported the best results with 13% growth year-over-year. AGCO dealers had the worst results for the second month in a row with average sales down 3%.
- ✓ A net 1% of dealers reported better than expected results for January, down considerably from the net 23% who beat their plan in December.
- ✓ A net 13% of dealers categorize their new equipment inventory as "too high" (27% too high; 59% about right; 14% too low), similar to the 11% of dealers last month who categorized their new inventory as "too high."
- ✓ A net 46% of dealers reported used combines inventories were "too high" (51% too high, 44% comfortable, 5% too low) vs. a net 49% last month.
- ✓ Incoming orders declined 3% on average in January, similar to the 3% decline in December.



Results vs. Expectations																								
	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
Better than expected	19%	20%	24%	22%	23%	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	38%	33%	27%	32%	24%	39%	25%
In line with expected	54%	66%	63%	52%	51%	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	48%	47%	54%	51%	56%	45%	51%
Worse than expected	26%	14%	14%	25%	26%	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	14%	20%	19%	17%	20%	16%	24%
Net %	-7%	7%	10%	-3%	-3%	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	23%	13%	8%	16%	4%	23%	1%

2014 Dealer Outlook Holds Steady

- ✓ For 2014, dealers are expecting a 4% sales decline, inline with their forecast last month.
- ✓ "Other" dealers were the most optimistic regarding 2014 growth, projecting sales up 3% year-over-year. Case IH and New Holland dealers were the least optimistic, with both groups projecting 2014 sales to be down 5% year-over-year.

Dealer Outlook																									
(% chg y/y)	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14				
2012 Outlook																	2013 Outlook								
																	2014 Outlook								
Overall	3%	4%	3%	4%	3%	2%	4%	2%	4%	4%	3%	5%	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%				
By Brand	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14				
AGCO	7%	6%	2%	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%				
John Deere	5%	9%	7%	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%	2%	2%	0%	-3%	-2%				
New Holland	1%	1%	0%	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%				
Case IH	-1%	-1%	-1%	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%				
Kubota	4%	6%	-1%	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%				
Shortlines	7%	5%	2%	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%	4%	6%	-3%	0%	-4%				
Other	5%	-2%	2%	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%	2%	2%	NA	0%	3%				

Dealer Optimism Improves in January

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved in January. A net 24% of dealers reported a less optimistic outlook for the year (12% more optimistic, 52% the same, 36% less optimistic). This is compared to a net 30% of dealers who reported a less optimistic outlook in December.

Optimism/Sentiment vs. Last Month																									
	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	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14
More Optimistic	38%	29%	25%	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%	21%	19%	14%	15%	14%	9%	12%
Same	53%	57%	59%	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%	58%	50%	62%	60%	45%	52%	52%
Less Optimistic	10%	14%	17%	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%	21%	31%	23%	25%	41%	39%	36%
Net %	29%	15%	8%	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%	0%	-12%	-9%	-11%	-27%	-30%	-24%

COMMENTARY

USDA Forecast Improves to 12% Decline for 2013-14 Cash Receipts

The updated February USDA cash receipts outlook for 2013 is for down 12% over 2012-13, slightly better than the 14% decline expected in the January forecast. 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 next year's equipment demand. USDA's initial forecast for 2014 net farm income is \$34.7 billion lower than current expectations for 2013, but is \$8 billion higher than the average of the previous 10 years.

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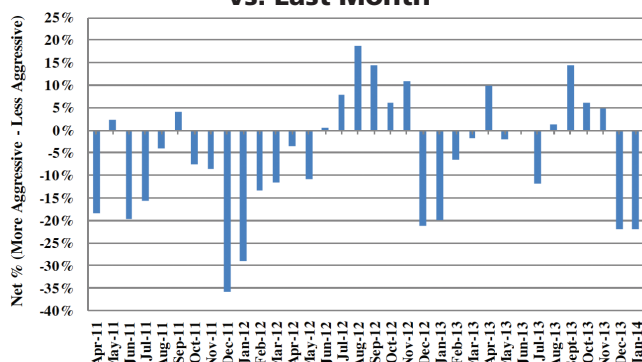
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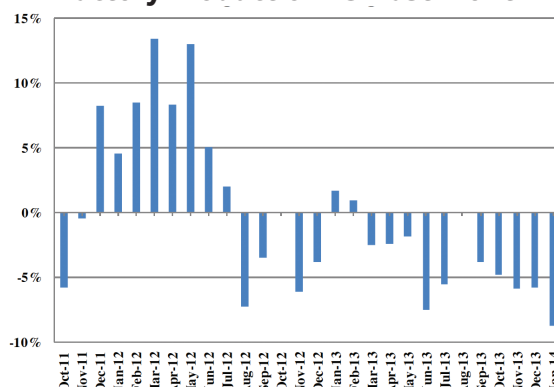
NEW EQUIPMENT TRENDS

Current Manufacturer Incentive Programs vs. Last Month



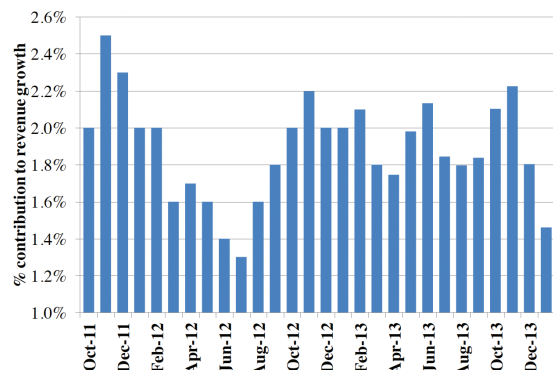
A net 22% of dealers report manufacturers were less aggressive with incentives in January (9% more aggressive; 60% same; 31% less aggressive), equal to December.

Factory Production vs. Last Month



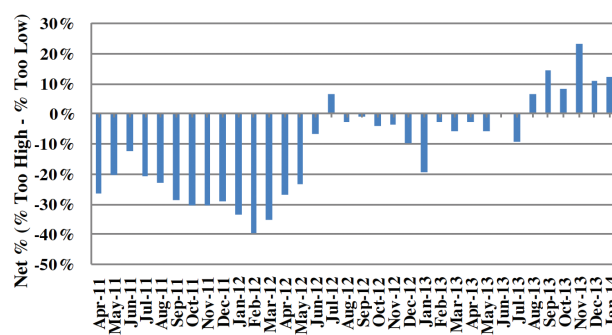
A net 9% of dealers report factory production was down compared to last month (2% increasing production; 87% no change in production; 11% decreasing production).

Price Contribution to Sales



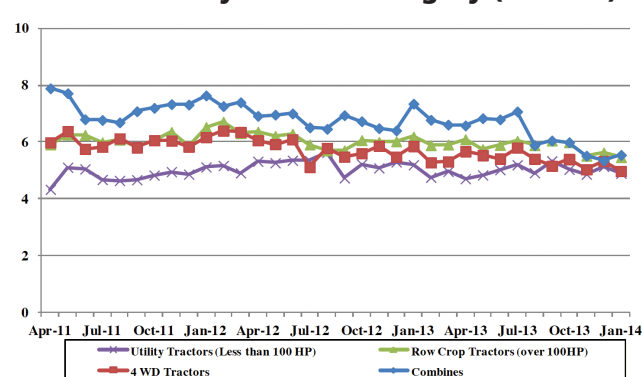
Dealers report price contributed roughly 1.5% to total January revenue growth. Most likely, this trend will continue to move higher in the coming months as new Model Year price increases and Final Tier 4 price increases kick in.

Industry Inventory Levels New Equipment



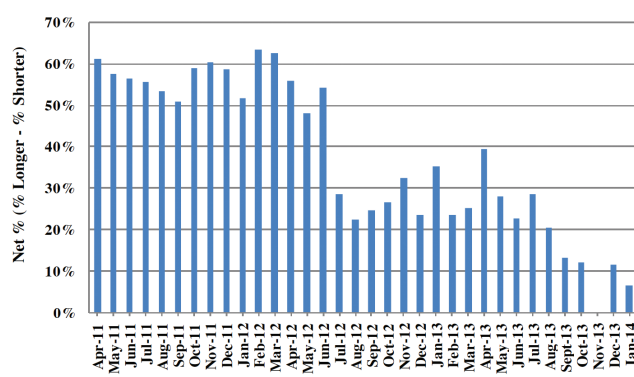
A net 13% of dealers categorize their new inventory as "too high" (27% too high; 59% about right; 14% too low), similar to 11% of dealers last month who categorized their new inventory as "too high."

Lead Times by Product Category (Months)



On average, lead times were similar in January compared to December. Combine lead times are 5.5 months, row-crop tractor lead times are 5.5 months and 4WD tractors are about 5 months.

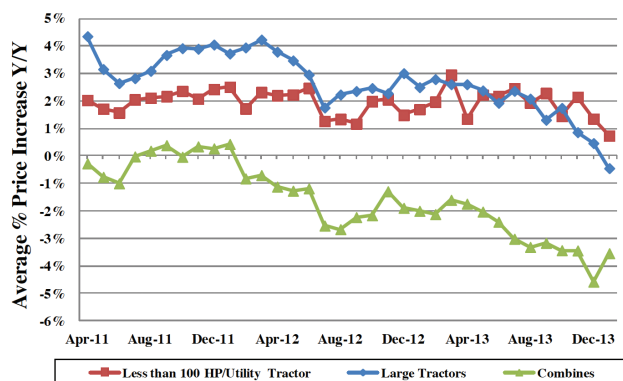
Lead Times vs. Prior Month



Overall, a net 7% of dealers report longer factory lead times compared to last month (23% longer; 60% same; 16% shorter), below the 12% who reported longer lead times last month.

USED EQUIPMENT TRENDS

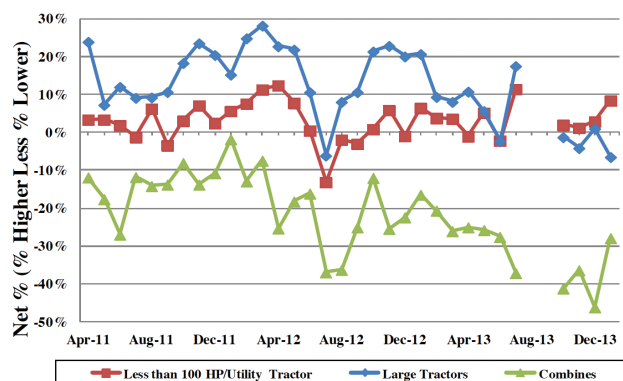
Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Dealers reported used combine values rebounded slightly in January to approximately down 3.5% year-over-year compared to down 4.6% in December. *Used high horse-power tractors values are now falling year-over-year for the first time in the history of our survey.*

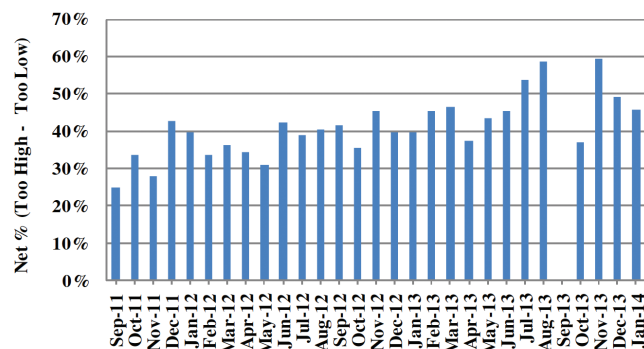
Used Equipment Values vs. Last Month



Source: Cleveland Research, AEI

A net 28% of dealers reported used combine values were lower in January compared to December, slightly better than the net 46% who reported used combine values were sequentially lower in December.

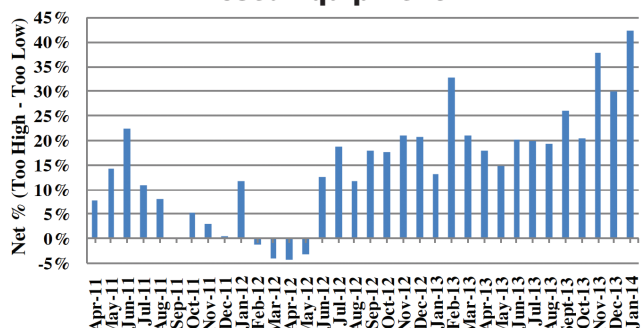
Used Combine Inventory



Source: Cleveland Research, AEI

A net 46% of dealers reported used combines inventories were "too high" (51% too high, 44% comfortable, 5% too low) vs. a net 49% last month.

Industry Inventory Levels Used Equipment

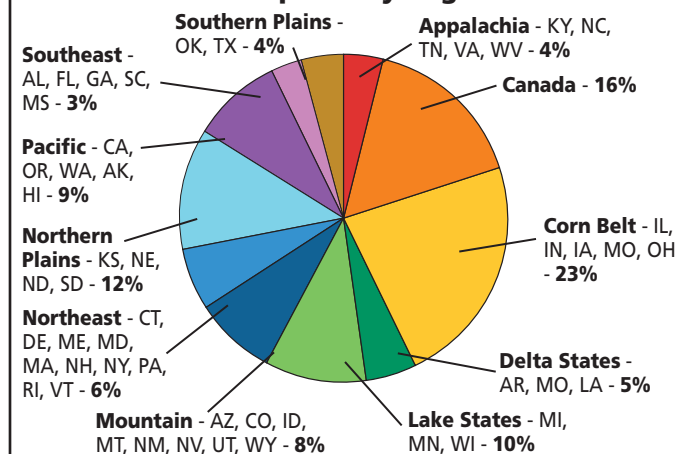


Source: Cleveland Research, AEI

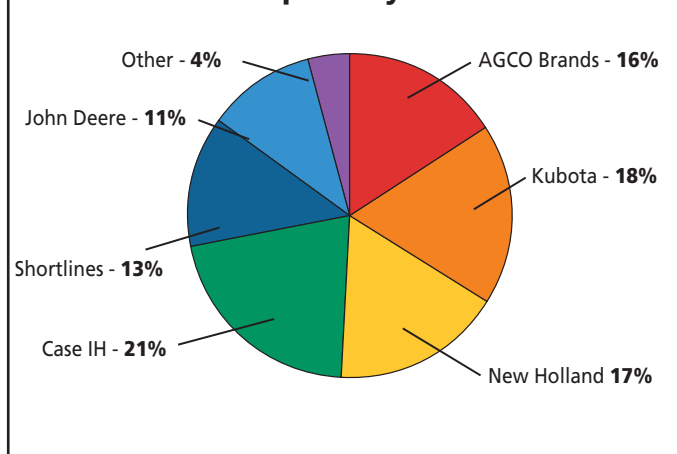
Used equipment inventory grew to the highest level in the history of our survey in January with a net 42% of dealers reported used inventories as "too high" (48% too high; 46% about right; 6% too low), compared to 30% who reported it was "too high" in December.

FEBRUARY 2014 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The February survey had approximately 102 respondents representing combined annual revenues of roughly \$4.56 billion, covering a broad cross section of geographies and brands.