

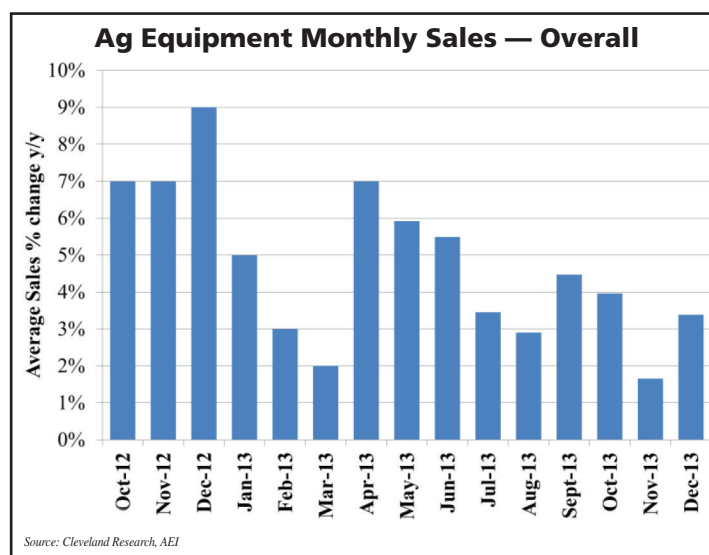
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Growth Up Slightly in December, Incoming Orders Down 3%

- ✓ Ag equipment dealers reported sales grew 3% on average in December, roughly inline with the 2% sales growth reported in November.
- ✓ Shortline and Kubota dealers outperformed their peers with 6% year-over-year growth, while AGCO dealers reported the worst results for the month with average sales down 4%.
- ✓ A net 23% of dealers reported better than expected results for December, up significantly from the net 4% beating plan in November.
- ✓ A net 11% of dealers categorize their new inventory as "too high" (25% too high; 61% about right; 14% too low) vs. 24% of dealers last month who categorized their new inventory as "too high." This marks the fifth consecutive month that new inventories are "too high."
- ✓ A net 49% of dealers reported used combines inventories were "too high" (54% too high, 41% comfortable, 5% too low) vs. a net 59% last month.
- ✓ Incoming orders declined 3% on average in December, down from the 2% decline in November.



Results vs. Expectations																								
	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	Sept-13	Oct-13	Nov-13	Dec-13
Better than expected	28%	19%	20%	24%	22%	23%	21%	30%	25%	26%	35%	38%	23%	18%	27%	25%	23%	19%	38%	33%	27%	32%	24%	39%
In line with expected	56%	54%	66%	63%	52%	51%	44%	41%	56%	54%	48%	49%	59%	60%	55%	52%	57%	58%	48%	47%	54%	51%	56%	45%
Worse than expected	16%	26%	14%	14%	25%	26%	35%	29%	19%	20%	17%	13%	18%	22%	18%	24%	20%	23%	14%	20%	19%	17%	20%	16%
Net %	12%	-7%	7%	10%	-3%	-3%	-14%	1%	6%	5%	18%	25%	5%	-4%	9%	1%	3%	-4%	23%	13%	8%	16%	4%	23%

2014 Dealer Outlook Worsens

- ✓ For 2014, the average dealer outlook is for a 4% decline in sales, down from the 1% decline expected last month.
- ✓ AGCO, shortline and "other" dealers are the most optimistic projecting sales to be flat in 2014. Meanwhile, Case IH dealers were the least optimistic regarding 2014 growth, projecting sales to be down 7% year-over-year.

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

Dealer Optimism Continues to Drop

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, once again declined in December. A net 30% of dealers reported a less optimistic outlook for the year (9% more optimistic; 52% same; 39% less optimistic). This is compared to a net 27% of dealers who reported a less optimistic outlook in November.

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

COMMENTARY

USDA Forecast Falls to 14% Decline for 2013-14 Cash Receipts

The updated January USDA cash receipts outlook for 2013 is calling for a drop off of 14% vs. 2012, just below the 13% decline in the December 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 future equipment demand.

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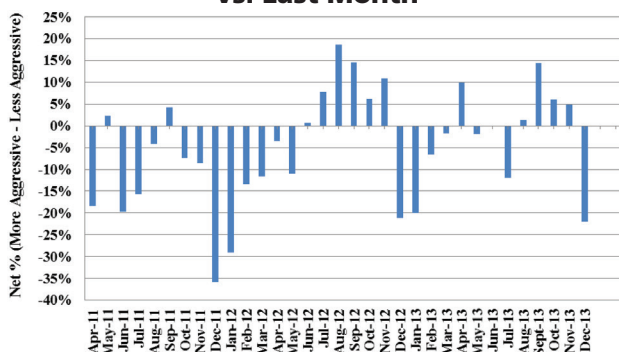
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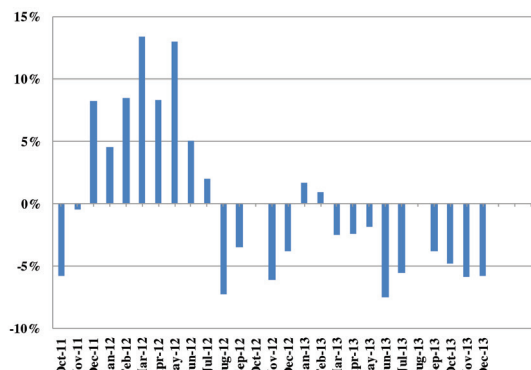
NEW EQUIPMENT TRENDS

Current Manufacturer Incentive Programs vs. Last Month



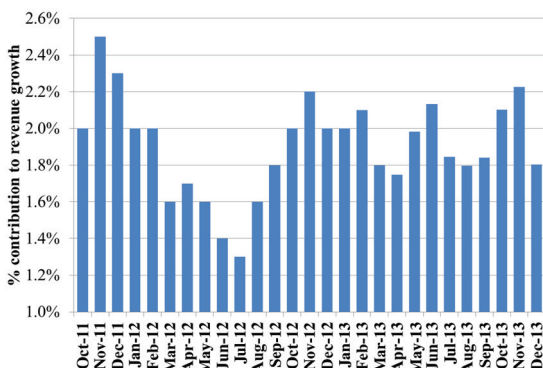
A net 22% of dealers report that manufacturers were less aggressive with incentives in December (12% more aggressive; 54% same; 34% less aggressive) compared to 5% reporting more aggressiveness in November.

Factory Production vs. Last Month



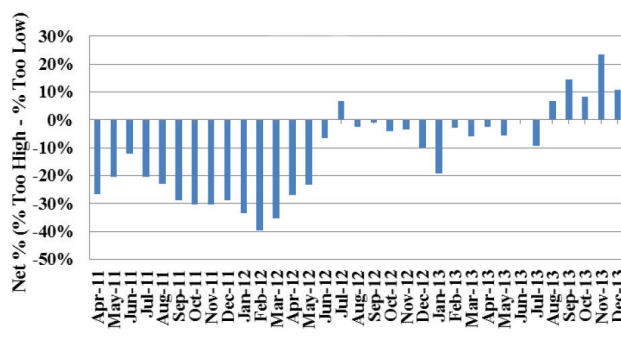
A net 6% of dealers report factory production was down compared to last month (3% increasing production; 88% no change in production; 9% decreasing production).

Price Contribution to Sales



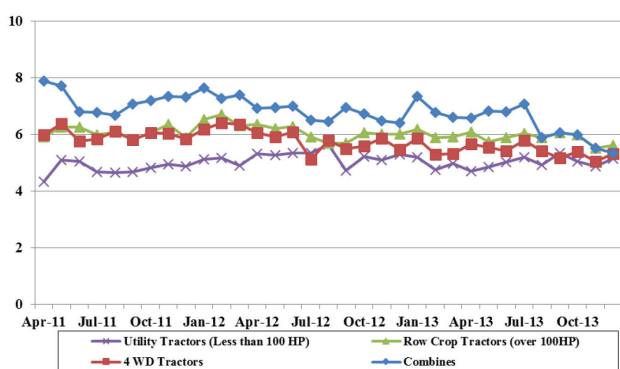
Dealers report price contributed roughly 1.8% to total December revenue growth. It's likely this trend will continue to move higher in the coming months as new model year price and Tier 4 Final price increases kick in.

Industry Inventory Levels New Equipment



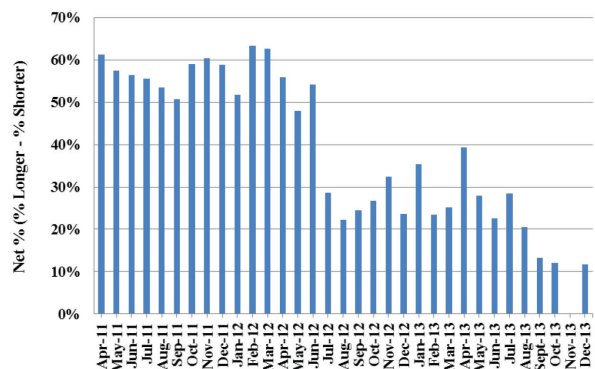
A net 11% of dealers categorize their new inventory as "too high" (25% too high; 61% about right; 14% too low), vs. 24% of dealers last month who categorized their new inventory as "too high."

Lead Times by Product Category (Months)



On average combine and row-crop tractor lead times are 5.6 months; 4WD are 5.3 months; and smaller tractors (<100 HP) lead times are 5.1 months.

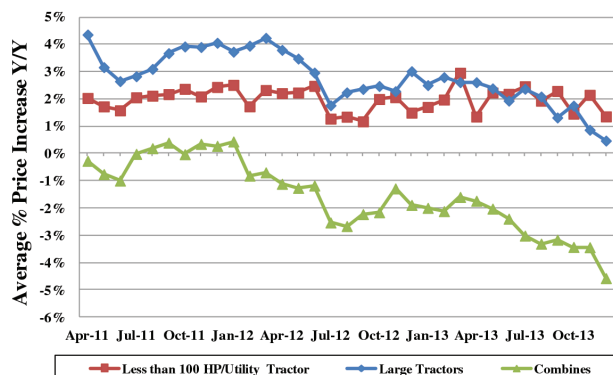
Lead Times vs. Prior Month



Overall, a net 11% of dealers report longer factory lead times compared to the previous month (28% longer; 55% same; 17% shorter), up from the flat lead times reported last month.

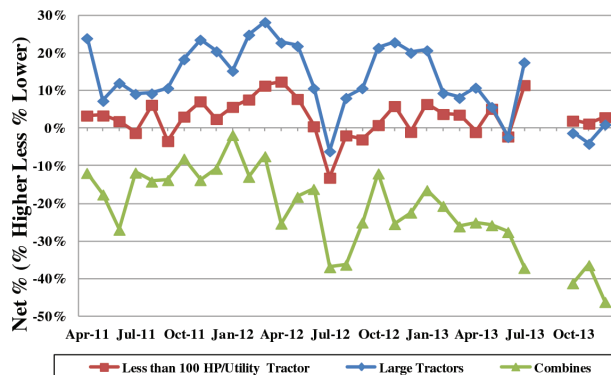
USED EQUIPMENT TRENDS

Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Used Equipment Values vs. Last Month

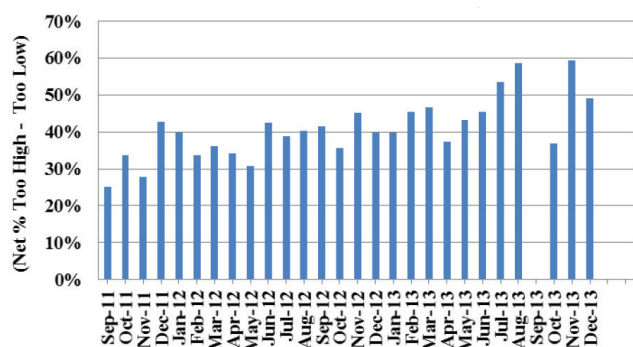


Source: Cleveland Research, AEI

By category, used prices for tractors over 100 HP are up less than 1% year-over-year on average, down slightly from last month. Prices for used tractors under 100 HP are up 1.4%, while used combine values dropped more significantly to down 4.6% year-over-year.

A net 46% of dealers reported used combine values were lower in December compared to November, down from the net 36% who reported used combine values were lower in November than October.

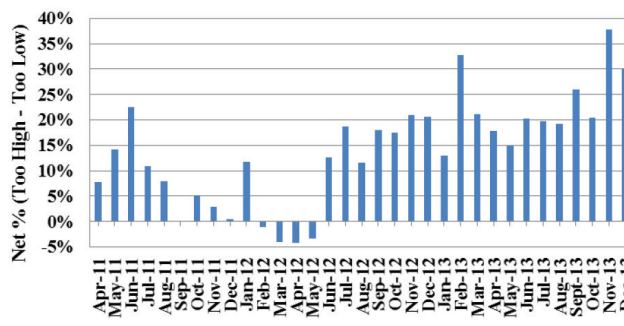
Used Combine Inventory



Source: Cleveland Research, AEI

A net 49% of dealers reported used combines inventories were "too high" (54% too high, 41% comfortable, 5% too low) vs. a net 59% last month.

Industry Inventory Levels Used Equipment

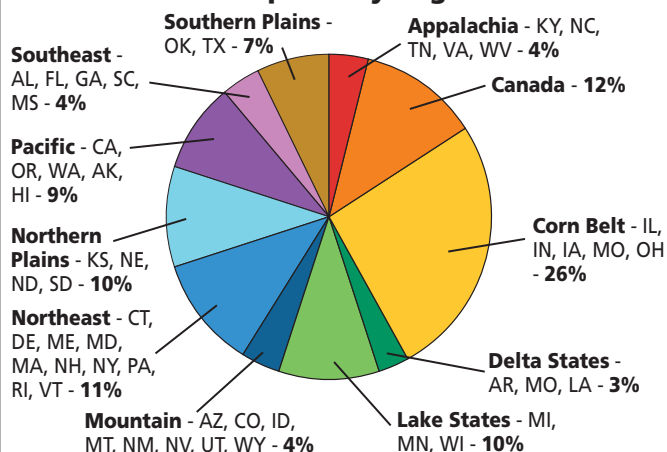


Source: Cleveland Research, AEI

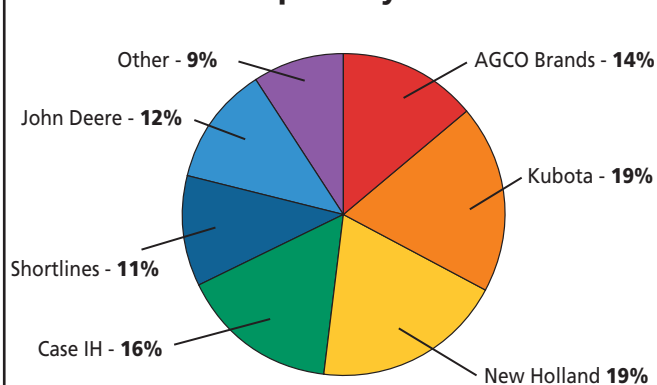
Used equipment inventory overall fell to a net 30% of dealers reporting used inventories as "too high" (39% too high; 52% about right; 9% too low), below the net 38% reporting "too high" last month.

JANUARY 2014 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The December survey had approximately 118 respondents representing combined annual revenues of roughly \$4.7 billion, covering a broad cross section of geographies and brands.