

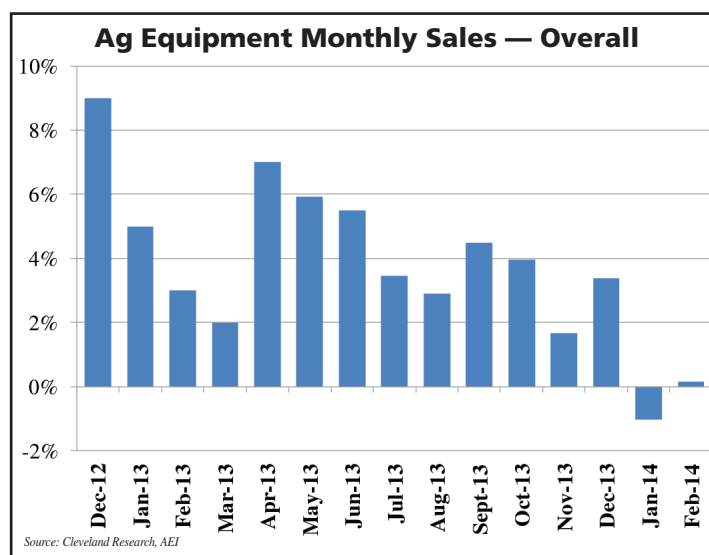
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Flat in February, Incoming Orders Decline 2%

- ✓ Ag equipment dealers reported sales were flat year-over-year on average in February.
- ✓ John Deere dealers reported the best results with 2% growth for the month. Kubota dealers reported the worst results with average sales down 3%.
- ✓ A net 4% of dealers reported worse than expected results for February, down for the second month after a net 23% of dealers beat their plan in December and a net 1% beat their sales plans in January.
- ✓ A net 9% of dealers categorize their new equipment inventory as "too high" (22% too high; 65% about right; 13% too low), slightly better than the 12% of dealers last month who categorized their new equipment inventory as "too high." This marks the 7th consecutive month that new equipment inventories are "too high."
- ✓ A net 46% of dealers reported used combines inventories were "too high" (54% too high; 39% comfortable; 8% too low) inline with last month.
- ✓ Incoming orders declined 2% on average in February. Orders have been running down low single digits since November.



### Results vs. Expectations

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

## 2014 Dealer Outlook Up Slightly

- ✓ For 2014, dealers are expecting a 2% sales decline, slightly better than their forecast last month.
- ✓ "Other" dealers were the most optimistic regarding 2014 growth, projecting sales to be up 3% year-over-year. Case IH dealers were the least optimistic, projecting 2014 sales to be down 5% year-over-year.

Dealer Outlook																					
(% chg yly)	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	Jan-14	Feb-14
2012 Outlook																2013 Outlook					
Overall	4%	3%	4%	3%	2%	4%	2%	4%	4%	3%	5%	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%
By Brand	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	Jan-14	Feb-14
AGCO	6%	2%	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%
John Deere	9%	7%	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%
New Holland	1%	0%	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%
Case IH	-1%	-1%	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%
Kubota	6%	-1%	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%
Shortlines	5%	2%	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%
Other	-2%	2%	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%	2%	2%	NA	0%	3%	3%

## Dealer Optimism Improves in February

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved significantly in February. A net 2% of dealers reported a less optimistic outlook for the year (24% more optimistic; 50% the same; 26% less optimistic). This is compared to a net 23% of dealers who reported a less optimistic outlook in January.

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

## COMMENTARY

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

The updated March USDA cash receipts outlook for 2013 is for down 12% over 2012-13, inline with the February 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.

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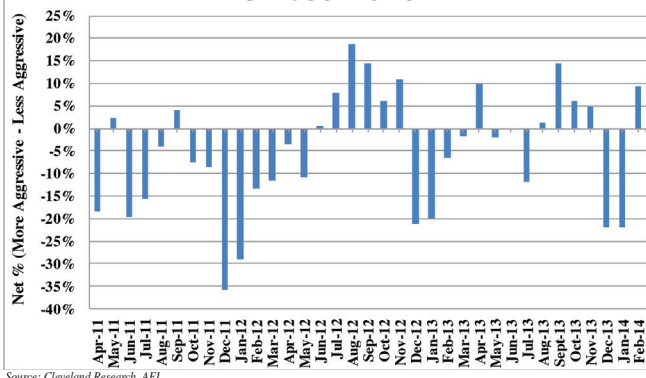
DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is a joint project of the editors of *Farm Equipment* and research team at the Cleveland Research Co.

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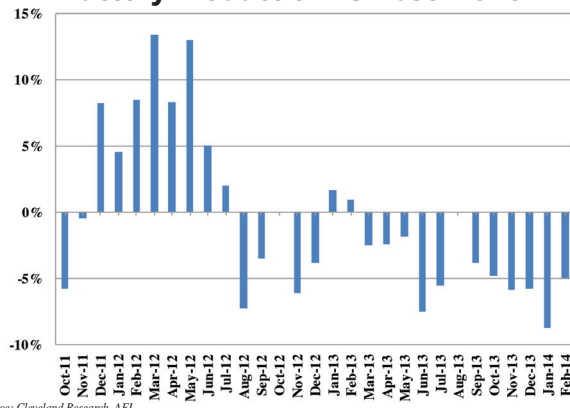
# NEW EQUIPMENT TRENDS

## Current Manufacturer Incentive Programs vs. Last Month



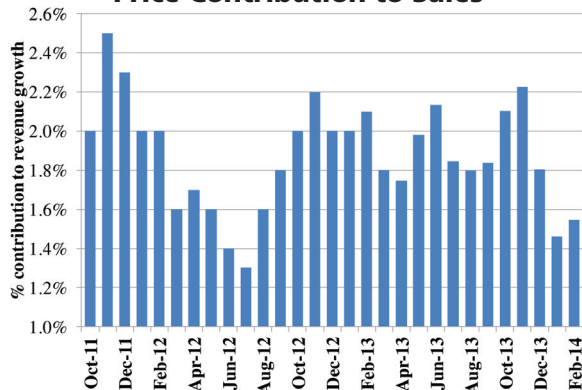
A net 9% of dealers report manufacturers were more aggressive with incentives in February (21% more aggressive; 67% same; 12% less aggressive), up significantly vs. the net 22% who reported manufacturers were less aggressive in December and January.

## Factory Production vs. Last Month



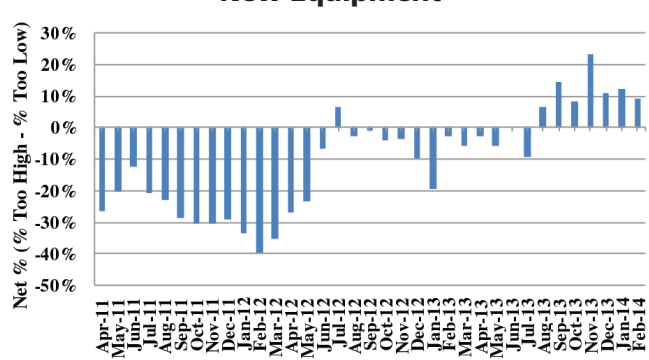
A net 5% of dealers report factory production was down compared to last month (6% increasing production; 84% no change in production; 11% decreasing production).

## Price Contribution to Sales



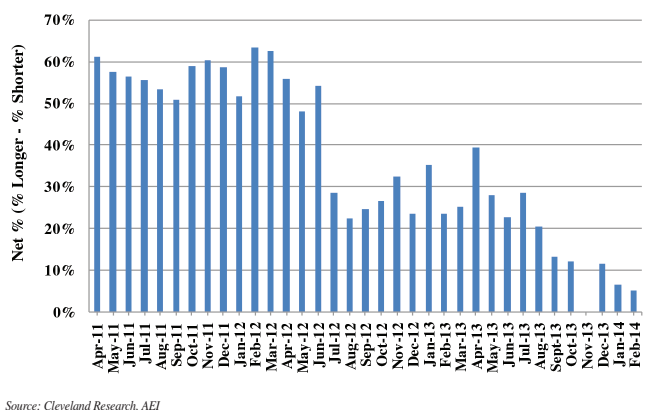
Dealers report price contributed roughly 1.5% to total February revenue growth. Most likely, this trend will continue to move higher in the coming months as new Model Year price increases and Final Tier 4 price increases kick in.

## Industry Inventory Levels New Equipment



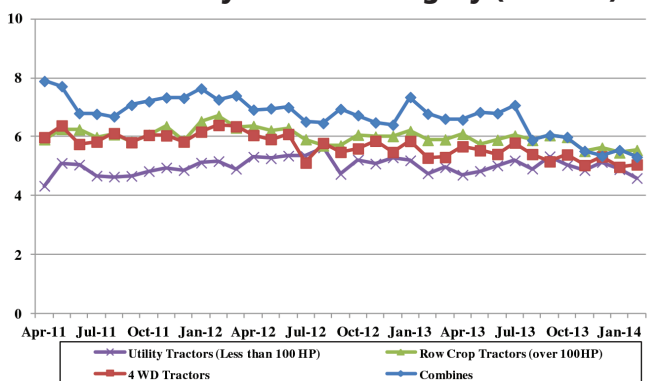
A net 9% of dealers categorize their new inventory as "too high" (22% too high; 65% about right; 13% too low), slightly better than the net 12% of dealers last month who categorized their new inventory as "too high."

## Lead Times vs. Prior Month



Overall, a net 5% of dealers report longer factory lead times compared to last month (22% longer; 62% same; 16% shorter), below the 7% who reported longer lead times last month.

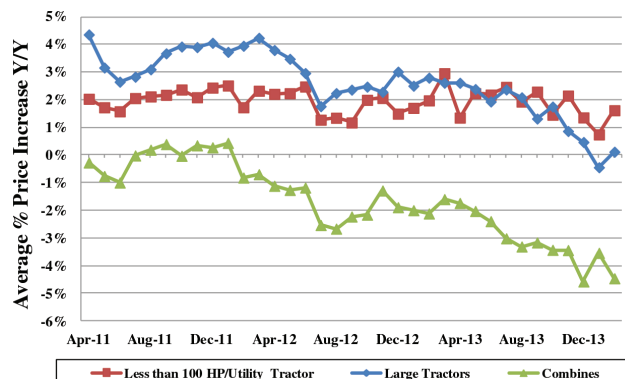
## Lead Times by Product Category (Months)



On average, lead times were similar in February compared to January. Combine lead times are 5.3 months, row-crop tractor lead times are 5.5 months and 4WD tractors are about 5.1 months.

## USED EQUIPMENT TRENDS

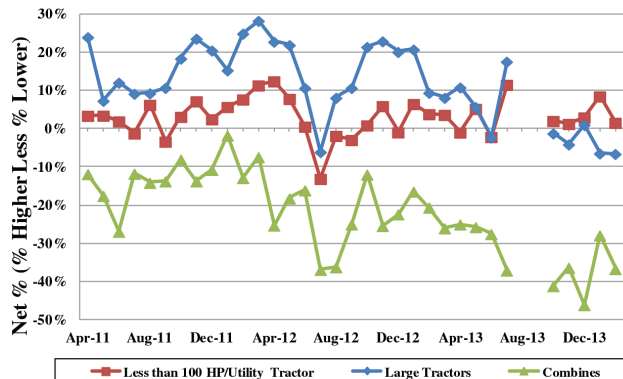
### Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Dealers reported used combine values got worse in February on both year-over-year and sequential basis to down about 4.5% year-over-year vs. 3.5% in January. Used high horsepower tractors values rebounded slightly compared to last month and were flat year-over-year.

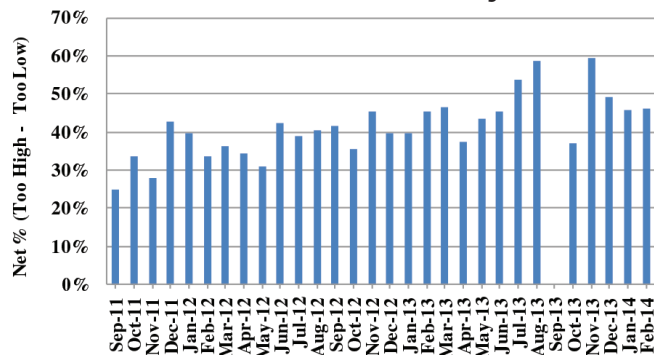
### Used Equipment Values vs. Last Month



Source: Cleveland Research, AEI

A net 37% of dealers reported that used combine values were lower in February compared to January, down from the net 28% who reported used combine values were sequentially lower in January.

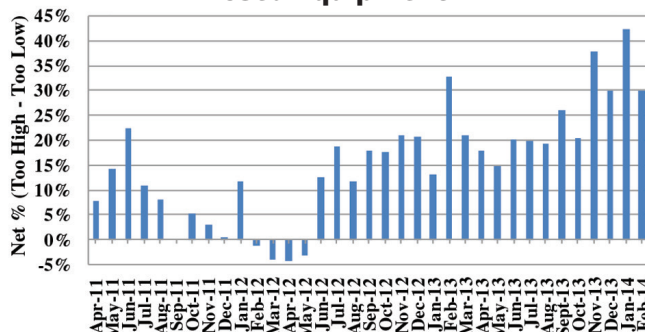
### Used Combine Inventory



Source: Cleveland Research, AEI

A net 46% of dealers reported used combines inventories were "too high" in February (54% too high; 39% comfortable; 8% too low) vs. a net 46% last month.

### Industry Inventory Levels Used Equipment

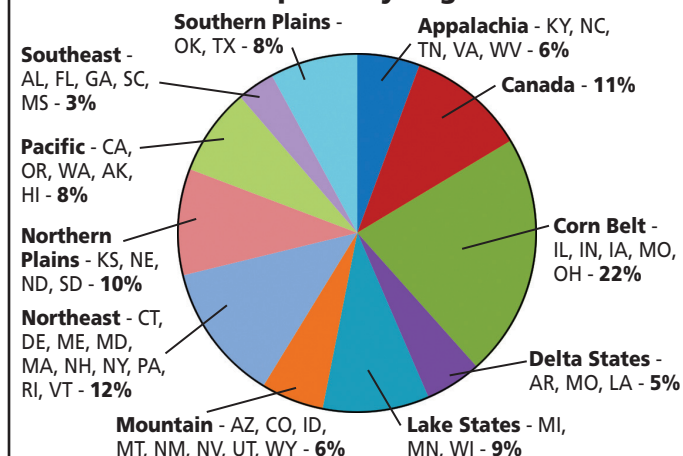


Source: Cleveland Research, AEI

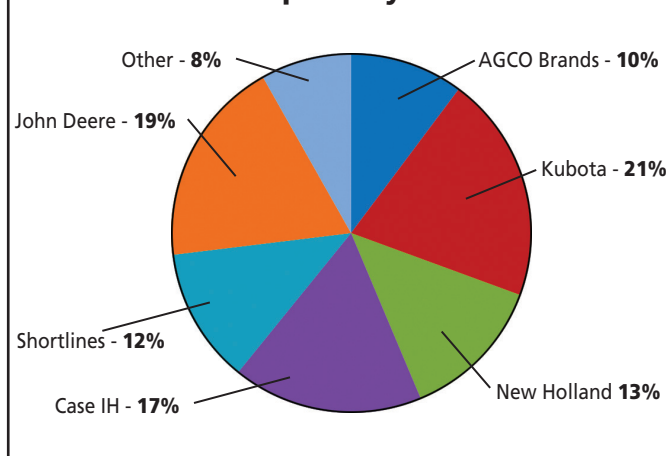
A net 30% of dealers reported used equipment inventory as "too high" in February (44% too high; 42% about right; 14% too low), better than the net 42% of dealers who reported used equipment inventories as "too high" in January.

## MARCH 2014 SURVEY RESPONDENTS

### Participants by Region



### Participants by Brand



The March survey had approximately 180 respondents representing combined annual revenues of roughly \$6.95 billion, covering a broad cross section of geographies and brands.