May 2014
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Ag Equipment Intelligence's

Dealer Sentiment & Business Conditions Update

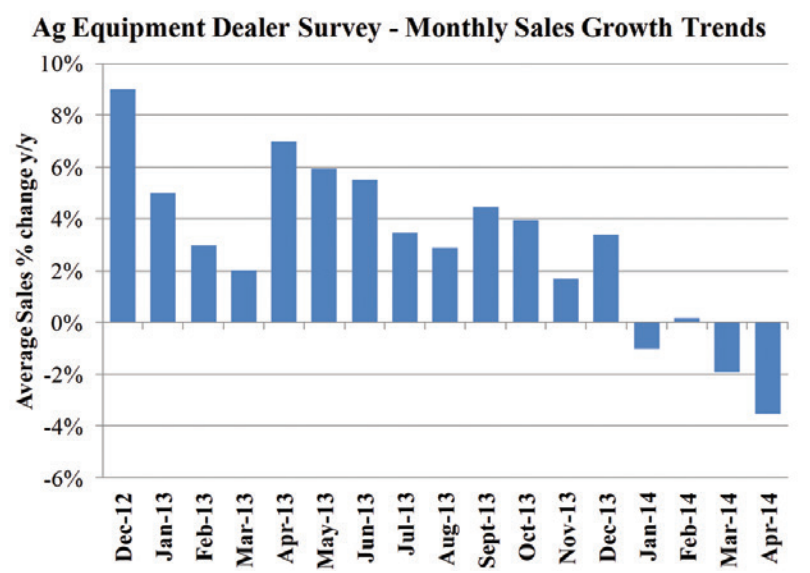
From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Down 4% in April, Incoming Orders Decline 5%

- ✔ Ag equipment dealers reported sales were down 4% year-over-year on average in April.
- ✔ Shortline dealers reported the best results with 1% growth for the month. Case IH dealers reported the worst results with average sales down 5%.
- ✔ Sales were largely inline with plan, similar to last month, as a net 4% of dealers reported worse than expected results for April.
- ✔ A net 15% of dealers categorize their new equipment inventory as "too high" (32% too high; 51% about right; 17% too low), similar to last month.
- ✔ A net 51% of dealers reported used combines inventories were "too high" (53% too high, 45% comfortable, 2% too low) vs. a net 44% last month.
- ✔ Incoming orders declined 5% on average in April. Orders have been running down low-single-digits since November, with April being the largest year-over-year decline to date.

Ag Equipment Monthly Sales — Overall



Source: Cleveland Research, AEI

Results vs. Expectations

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

2014 Dealer Outlook Down Slightly

- ✔ For 2014, dealers are expecting a 4% sales decline vs. the 3% decline forecast last month.
- ✔ Shortline dealers were the most optimistic regarding 2014 growth, projecting sales to be up 1% year-over-year. Case IH and New Holland dealers were the least optimistic, projecting 2014 sales to be down 6% year-over-year.

Dealer Outlook

(% chg y/y)	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	Mar-14	Apr-14
	2012 Outlook		2013 Outlook											2014 Outlook							
Overall	4%	3%	2%	4%	2%	4%	4%	3%	5%	5%	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%	-3%	-4%
By Brand	**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**	**Mar-14**	**Apr-14**
AGCO	3%	4%	4%	3%	3%	2%	2%	6%	6%	2%	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%	2%	0%
John Deere	8%	4%	2%	6%	3%	4%	4%	3%	5%	8%	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%	-3%	-3%
New Holland	2%	1%	0%	0%	-1%	1%	0%	2%	4%	1%	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%	-1%	-6%
Case IH	0%	2%	2%	2%	-1%	3%	4%	1%	5%	0%	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%	-5%	-6%
Kubota	4%	3%	2%	0%	0%	4%	4%	3%	7%	4%	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%	-2%	-2%
Shortlines	3%	5%	0%	2%	0%	4%	4%	2%	3%	3%	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%	-4%	-1%
Other	4%	3%	3%	-2%	2%	1%	5%	NA	1%	3%	1%	4%	1%	2%	2%	NA	0%	3%	3%	7%	NA

Dealer Optimism Turns Negative

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, turned negative again after a positive March reading. A net 8% of dealers reported a less optimistic outlook for the year (24% more optimistic, 44% the same, 32% less optimistic). This is compared to a net 3% of dealers who reported a more optimistic outlook in March.

Optimism/Sentiment vs. Last Month

	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	Jan-14	Feb-14	Mar-14	Apr-14
More Optimistic	22%	15%	14%	18%	28%	31%	27%	28%	28%	34%	34%	21%	27%	27%	26%	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%
Same	62%	61%	49%	44%	54%	54%	54%	52%	55%	51%	50%	54%	58%	52%	50%	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%
Less Optimistic	17%	24%	37%	38%	18%	15%	20%	20%	18%	15%	16%	26%	15%	21%	24%	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%
Net %	5%	-9%	-23%	-19%	10%	15%	7%	8%	10%	19%	18%	-5%	13%	6%	2%	0%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-8%

COMMENTARY

USDA Forecast Holds Steady at 10% Decline for 2013-14 Cash Receipts

The updated May USDA cash receipts outlook for 2013 is similar to last month, implying a 10% decline vs. 2012-13. The initial 2014-15 outlook implies an additional 9% decline in the value of production largely the result of lower corn and soybean price expectations. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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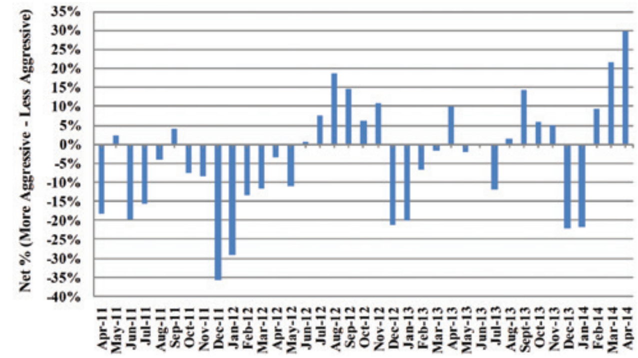
NEW EQUIPMENT TRENDS

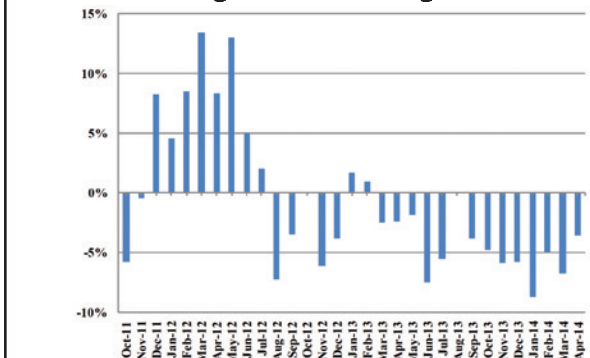
Current Manufacturer Incentive Programs vs. Last Month



Source: Cleveland Research, AEI

A net 29% of dealers report manufacturers were more aggressive with incentives in April (35% more aggressive; 59% the same; 6% less aggressive), a significant change over the past 3 months (net 22% less aggressive in January).

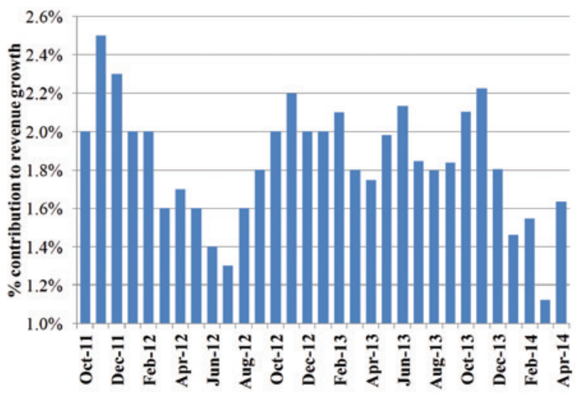
Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production



Source: Cleveland Research, AEI

A net 3% of dealers report factory production was down compared to last month (10% increasing production; 77% no change in production; 13% decreasing production).

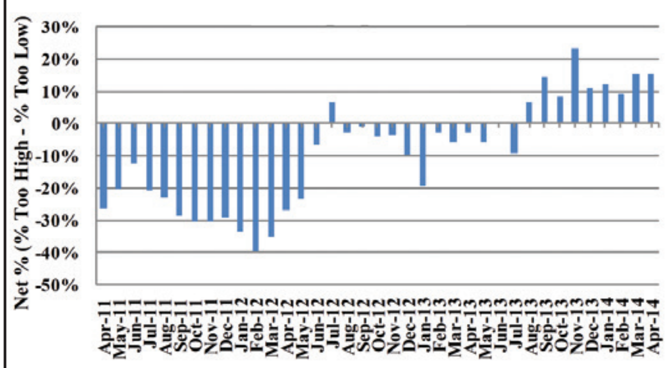
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1.6% to total April revenue growth, a reversal in the downward trend since November. Final Tier 4 price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

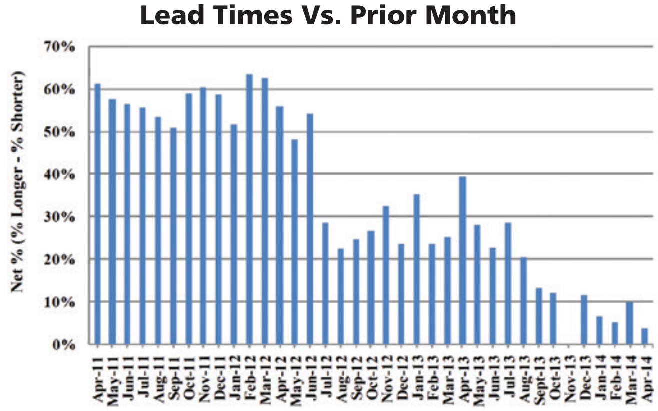
Industry Inventory Levels — New Equipment



Source: Cleveland Research, AEI

A net 15% of dealers categorize their new inventory as "too high" (32% too high; 51% about right; 17% too low), similar to last month.

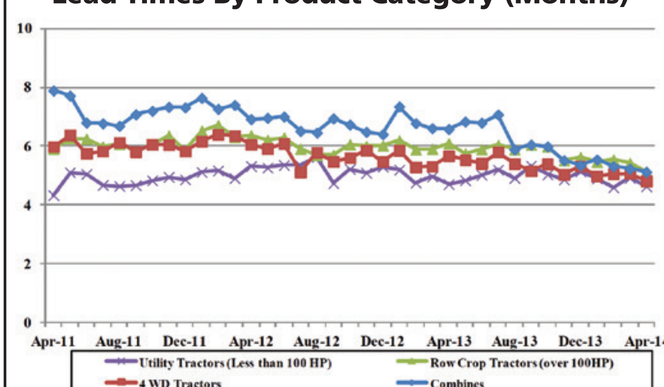
Lead Times Vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 4% of dealers report longer factory lead times compared to last month (28% longer; 49% the same; 24% shorter), below the 10% who reported longer lead times last month.

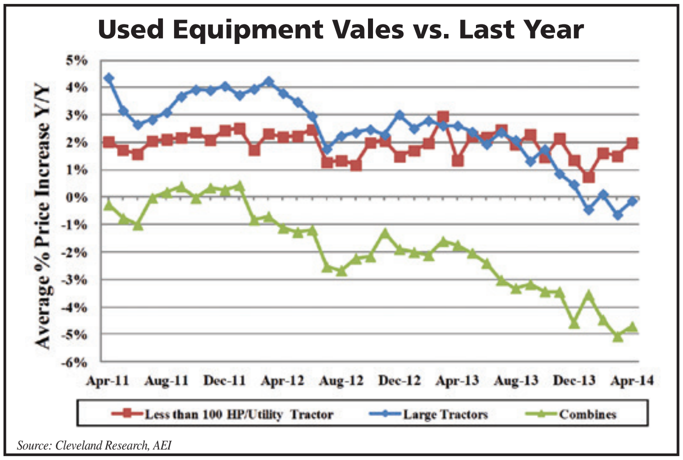
Lead Times By Product Category (Months)



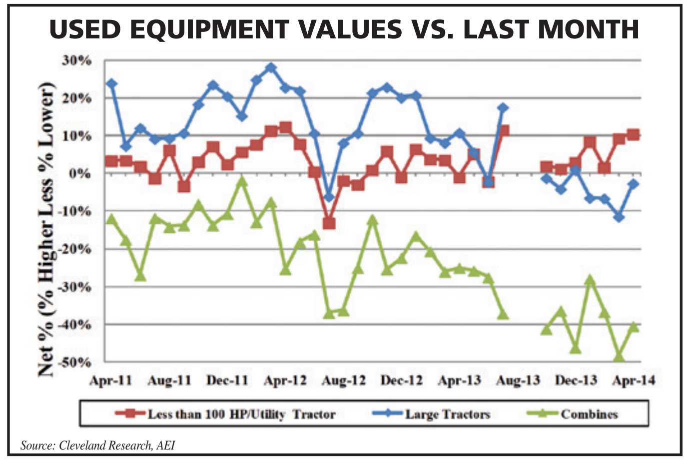
Source: Cleveland Research, AEI

On average, lead times across the board were shorter in April compared to last month. Combine lead times are 5.1 months (5.2 last month), row-crop tractor lead times are 5.1 months (5.4 last month) and 4WD tractors are 4.8 months (5.1 last month).

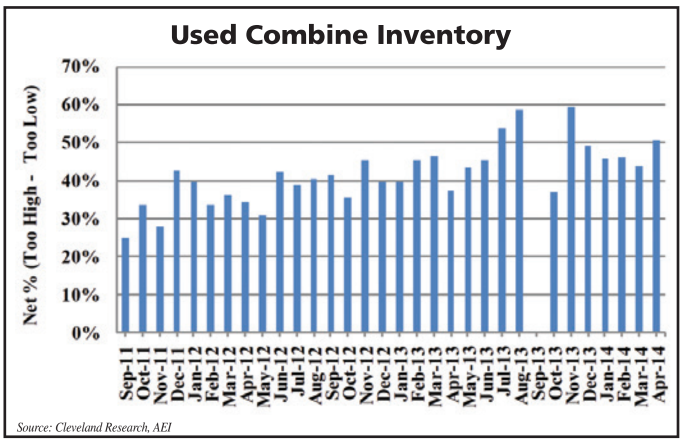
USED EQUIPMENT TRENDS



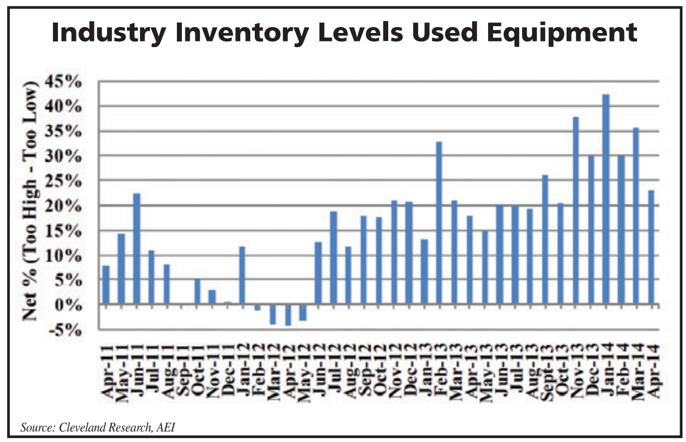
Used combine values improved slightly in April vs. March on a year-over-year basis (down 4.7% vs. down 5.1% last month). Used HHP tractor values were down 0.1% vs. down 0.6% in March. Smaller tractor used pricing continues to be the outlier with prices up approximately 2% year-over-year.



Compared to last month, a net 40% of dealers report combine values are weaker, a net 3% report weaker values for large tractors, and a net 11% report stronger tractor values less than 100HP/Utility.

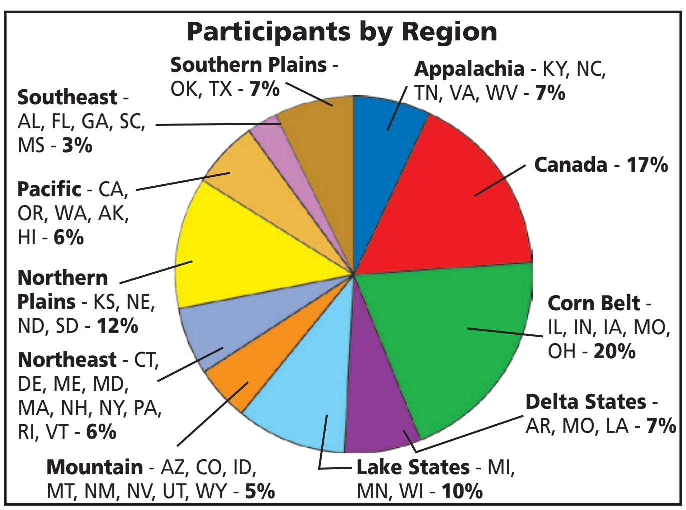


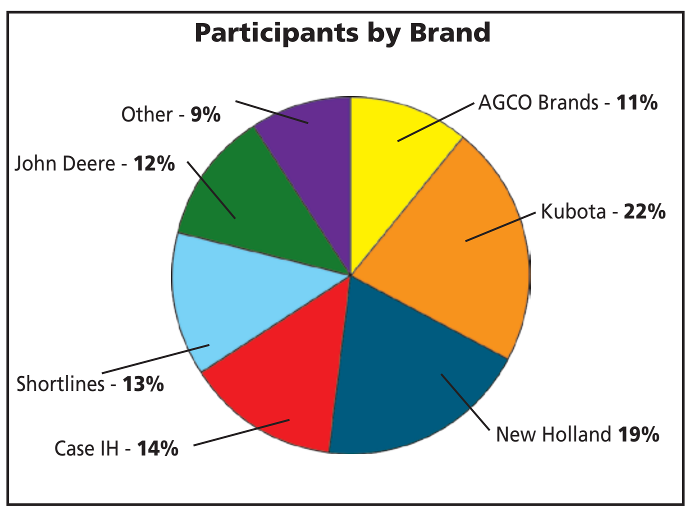
A net 51% of dealers reported used combine inventories were "too high" in April (53% too high, 45% comfortable, 2% too low) vs. a net 44% last month.



A net 23% of dealers reported used equipment inventory as "too high" in April (40% too high; 44% about right; 17% too low), a significant improvement compared to last month (net 36% "too high").

APRIL 2014 SURVEY RESPONDENTS





The April survey had approximately 173 respondents representing combined annual revenues of roughly $6.8 billion, covering a broad cross section of geographies and brands.