

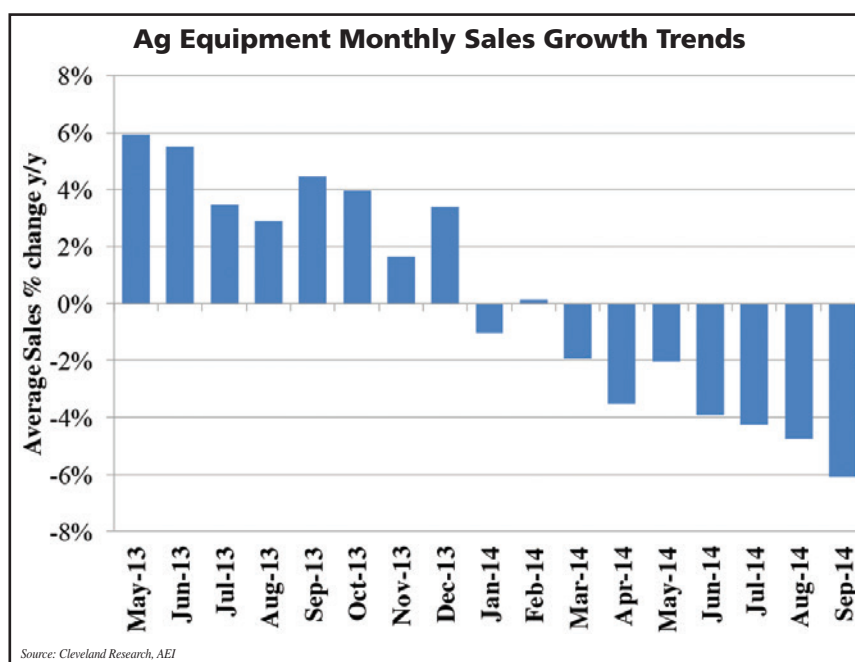
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 6% in September

- ✓ Ag equipment dealers reported sales were down 6% year-over-year on average in September.
- ✓ Shortline dealers reported the strongest sales growth of up 5% year-over-year on average, while Case IH dealers reported the largest declines at down 13%.
- ✓ Sales were relatively inline with plan again in September, similar to most of 2014, as most dealers were expecting modest declines.
- ✓ A net 33% of dealers categorize their new equipment inventory as "too high" (42% too high; 49% about right; 9% too low), up from the net 24% last month.
- ✓ A net 46% of dealers reported used combines inventories were "too high" in September, a significant improvement from the net 59% last month.
- ✓ Incoming orders declined 10% year-over-year on average in September, down slightly from the 9% decline in August.



Results vs. Expectations																
	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	Aug-14	Sep-14
Better than expected	19%	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%	26%	28%	24%
In line with expectations	58%	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%	49%	47%	47%
Worse than expected	23%	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%	26%	25%	29%
Net % (Better - Worse)	-4%	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%	-5%

2014 Dealer Outlook Improves

- ✓ For 2014, dealers are expecting a 4% sales decline, improved from the 8% decline forecast last month.
- ✓ AGCO dealers were the most optimistic (projecting 2% growth in 2014), while Case IH dealers are again forecasting the largest sales declines of 7% year-over-year for 2014 (although improved from the 14% decline forecast by Case IH dealers last month).

Dealer Outlook																
(% chg y/y)	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	Aug-14	Sep-14
2013 Outlook				2014 Outlook												
Overall	3%	3%	3%	0%	1%	-1%	-4%	-4%	-2%	-3%	-4%	-4%	-6%	-6%	-8%	-4%
By Brand	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	Aug-14	Sep-14
AGCO	3%	-4%	2%	-1%	-3%	-2%	0%	-2%	-1%	2%	0%	0%	-1%	2%	-4%	2%
John Deere	4%	6%	1%	2%	2%	0%	-3%	-2%	-1%	-3%	-3%	-2%	-6%	-6%	-6%	-4%
New Holland	6%	0%	-3%	2%	1%	-2%	-2%	-5%	0%	-1%	-6%	-9%	-3%	-3%	-6%	1%
Case IH	0%	3%	-5%	-3%	0%	-1%	-7%	-5%	-5%	-5%	-6%	-9%	-11%	-9%	-14%	-7%
Kubota	8%	-3%	3%	-1%	-1%	-3%	-2%	-3%	-1%	-2%	-2%	-10%	-3%	-4%	-7%	-1%
Shortlines	2%	12%	5%	4%	6%	-3%	0%	-4%	-3%	-4%	1%	-2%	-8%	-2%	-5%	1%
Other	1%	4%	1%	2%	2%	NA	0%	3%	3%	7%	NA	NA	-4%	3%	2%	NA

Dealer Optimism Improves

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw an increase in September. A net 22% of dealers reported a less optimistic outlook for the year (16% more optimistic, 46% the same, 38% less optimistic). This compares to a net 26% of dealers who reported a less optimistic outlook in August.

Optimism/Sentiment vs. Last Month																
	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	Aug-14	Sep-14
More Optimistic	26%	21%	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%	13%	12%	16%
Same	50%	58%	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%	45%	50%	46%
Less Optimistic	24%	21%	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%	42%	38%	38%
Net % Dealer Optimism	2%	1%	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%

COMMENTARY

USDA Forecast Improves Slightly at 11% Slight Decline for 2014-15 Cash Receipts Outlook

The updated October USDA report raised cash receipts outlook for 2013-14 slightly to down 11% vs. down 12% year-over-year prior. The 2014-15 cash receipts outlook, however, was revised lower to down 17% vs. down 15% 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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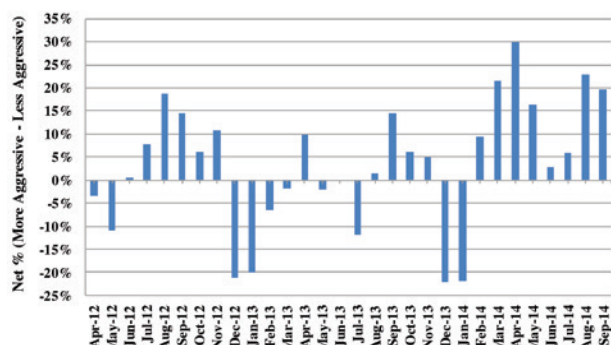
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NEW EQUIPMENT TRENDS

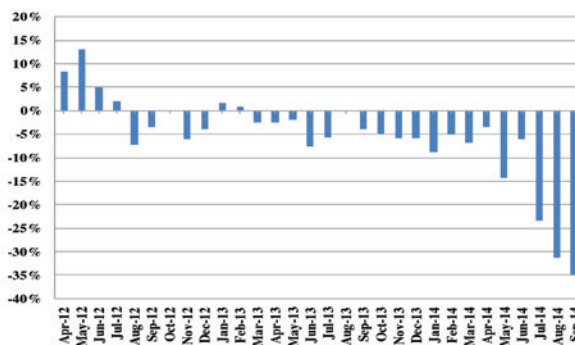
Current Manufacturer Incentive Programs vs. Last Month



Source: Farm Equipment Magazine Survey

A net 20% of dealers report manufacturers were more aggressive with incentives in September (25% more aggressive; 70% the same; 5% less aggressive), down slightly from the net 23% reporting more aggressive incentives last month.

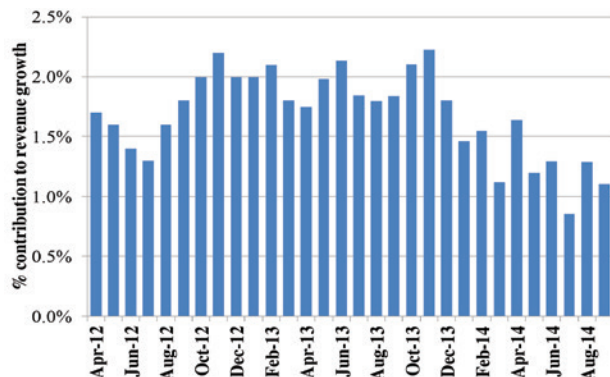
Factory Production vs. Last Month — Net % Increasing vs. Decreasing Production



Source: Farm Equipment Magazine Survey

A net 35% of dealers report factory production was down compared to last month, down from the net 31% reporting lower product levels in August.

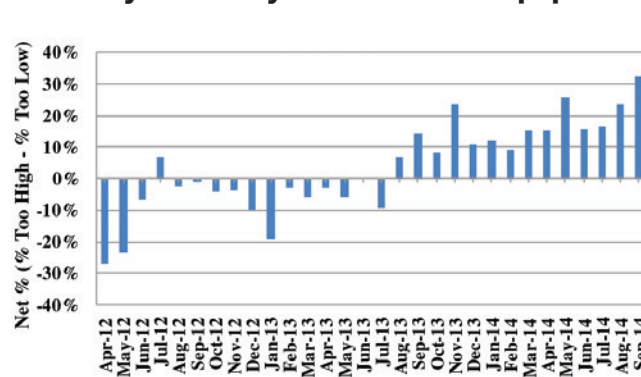
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1.1% to total September revenue growth vs. the 1.3% last month. Final Tier 4 price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

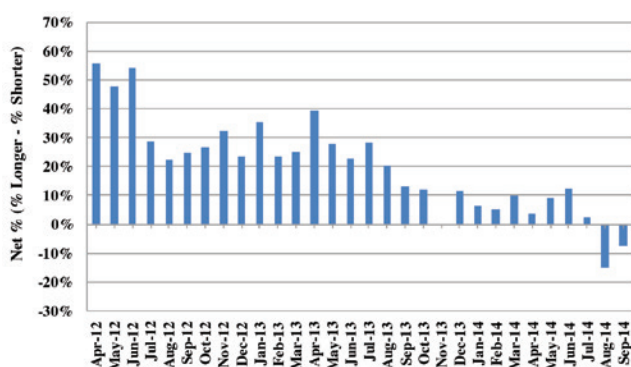
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 33% of dealers categorize their new equipment inventory as "too high" (42% too high; 49% the same; 9% too low), up from a net 24% last month.

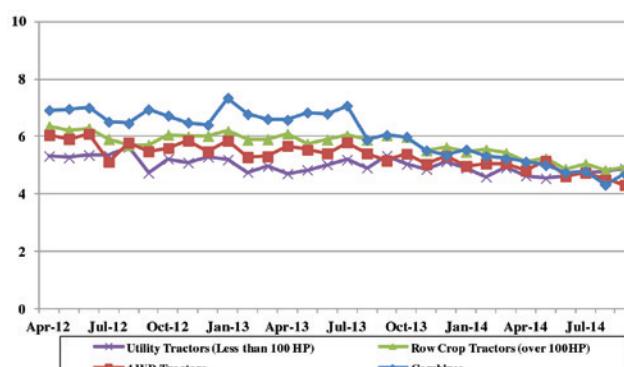
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 7% of dealers report shorter factory lead-times compared to last month (18% longer, 57% the same; 25% shorter).

Lead Times by Product Category (Months)

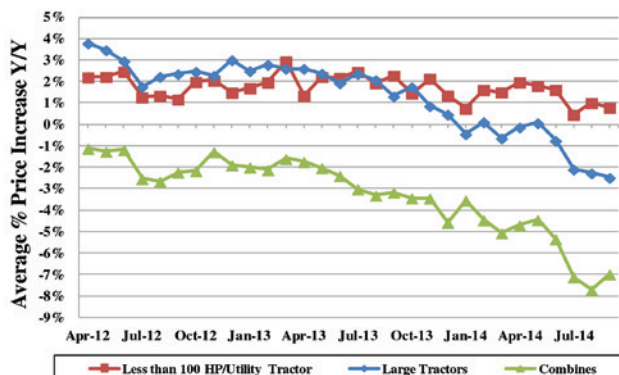


Source: Cleveland Research, AEI

Combine lead times were reported at 4.7 months on average vs. 4.3 months last month, row-crop tractor lead times were 4.9 months vs. 4.8 last month and 4WD tractors were 4.3 months vs. 4.5 last month.

USED EQUIPMENT TRENDS

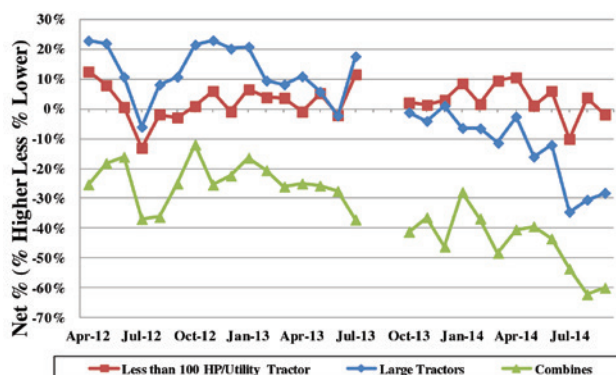
Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Used equipment values in September were similar to values in August. Combine values are reported at down 7% year-over-year vs. down 7.7% last month, while used HHP tractors values are reported at down 2.5% year-over-year vs. down 2.3% last month.

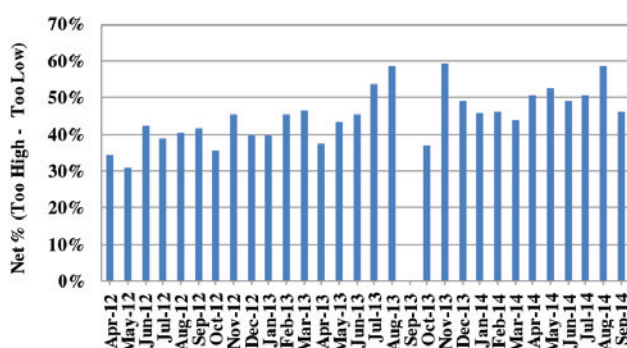
Used Equipment Values vs. Last Month



Source: Cleveland Research, AEI

Comparing September to August, a net 60% of dealers reported used combine values were lower, while a net 28% reported large tractor values were lower.

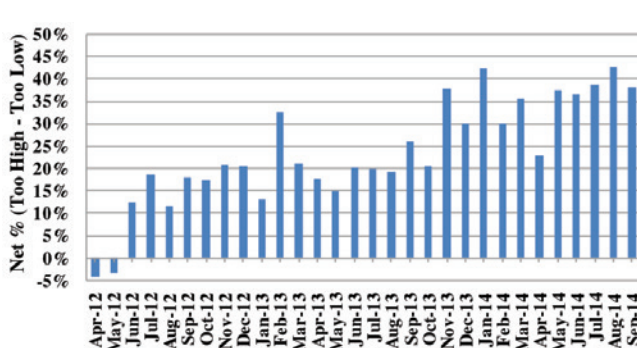
Used Combine Inventory



Source: Cleveland Research, AEI

A net 46% of dealers reported used combines inventories were "too high" compared to a net 59% last month.

Industry Inventory Levels — Used Equipment

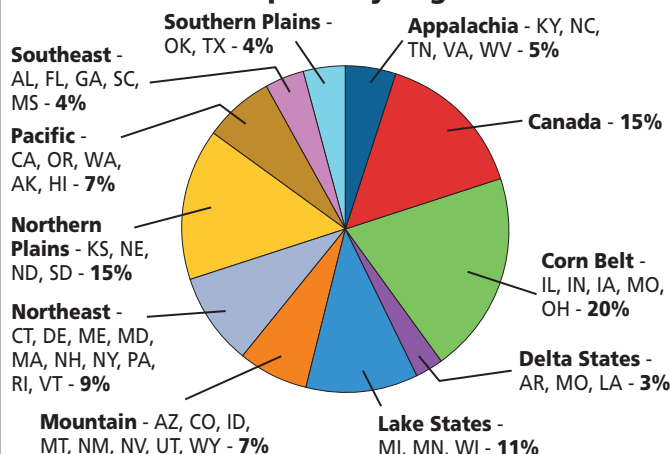


Source: Cleveland Research, AEI

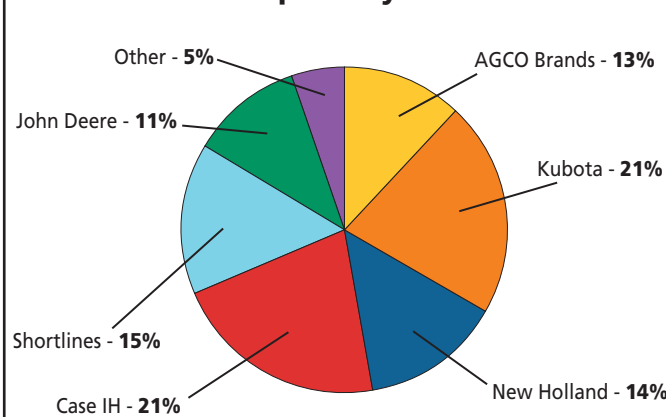
A net 38% of dealers reported used equipment inventory as "too high" in September (47% too high; 44% about right; 9% too low), down from the net 43% last month.

OCTOBER 2014 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The October survey had 134 respondents representing combined annual revenues of roughly \$5.8 billion, covering a broad cross section of geographies and brands.