April 2015
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Ag Equipment Intelligence's

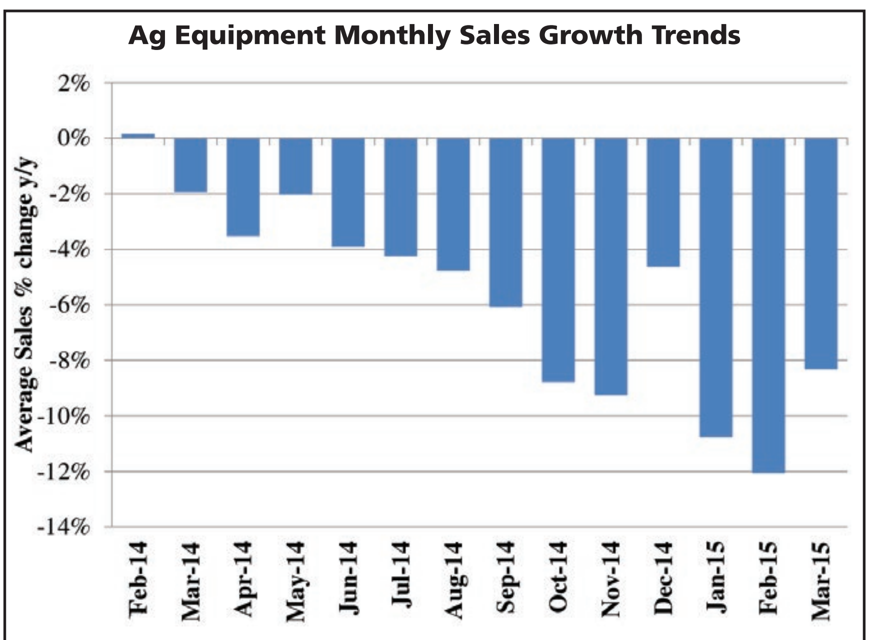
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 8% in March

- ✔ Ag equipment dealers reported **sales were down 8%** year-over-year on average in March.
- ✔ New Holland dealers reported the best results with sales down 5%, while Kubota dealers reported the largest decline at down 16%.
- ✔ Sales were slightly below dealer expectations, with a net 8% of dealers missing their sales budgets for the month, the second consecutive month of sales below plan.
- ✔ A net 33% of dealers reported new equipment inventories were "too high" in March compared to a net 37% the previous month.
- ✔ **A net 47% of dealers reported used equipment inventories were "too high"** in March, above the net 44% level the previous month and again setting a new high in our survey's history.
- ✔ Incoming orders declined 12% year-over-year on average in March, up from the 15% decline in February.



Source: Cleveland Research, AEI

Results vs. Expectations

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Better than expected	20%	21%	21%	29%	25%	26%	28%	24%	22%	21%	29%	26%	13%	20%
In line with expectations	55%	54%	54%	52%	53%	49%	47%	47%	51%	30%	47%	57%	59%	50%
Worse than expected	25%	26%	25%	19%	23%	26%	25%	29%	27%	39%	23%	18%	28%	28%
Net % (Better - Worse)	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%	6%	8%	-14%	-8%

2015 Dealer Outlook Sees Slight Improvement

- ✔ For 2015, dealers are now expecting sales to decline 13% year-over-year on average, up from the 15% decline forecast last month.
- ✔ John Deere dealers are the most optimistic and raised their 2015 sales growth outlook the most compared to last month's forecast to down 8% for the year vs. down 18% last month. Shortline/Other dealers are the least optimistic on average, predicting sales to be down 19% for 2015.

Dealer Outlook

(% chg y/y)	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
	2014 Outlook						2015 Outlook						
Overall	-4%	-6%	-6%	-8%	-4%	-9%	-9%	-11%	-10%	-8%	-11%	-15%	-13%
By Brand	**May-14**	**Jun-14**	**Jul-14**	**Aug-14**	**Sep-14**	**Oct-14**	**Sep-14**	**Oct-14**	**Nov-14**	**Dec-14**	**Jan-15**	**Feb-15**	**Mar-15**
AGCO	0%	-1%	2%	-4%	2%	10%	6%	0%	-9%	0%	-10%	-11%	-12%
John Deere	-2%	-6%	-6%	-6%	-4%	-10%	-12%	-14%	-9%	-9%	-11%	-18%	-8%
New Holland	-9%	-3%	-3%	-6%	1%	0%	9%	-8%	-10%	-3%	-6%	-11%	-10%
Case IH	-9%	-11%	-9%	-14%	-7%	-16%	-12%	-11%	-16%	-11%	-14%	-17%	-17%
Kubota	-10%	-3%	-4%	-7%	-1%	3%	7%	-6%	-14%	-6%	-11%	-13%	-17%
Shortlines	-2%	-8%	-2%	-5%	1%	-9%	3%	-12%	-16%	-7%	-7%	-10%	-19%
Other	NA	-4%	3%	2%	NA	19%	0%	3%	NA	-11%	—	—	—

*As of January 2015, we've combined shortlines and other.

Dealer Optimism Improves

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved in March. A net 29% of dealers reported a less optimistic outlook for the year (14% more optimistic, 42% the same, 43% less optimistic). This compares to a net 31% of dealers who reported a less optimistic outlook in February.

Optimism/Sentiment vs. Last Month

	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
More Optimistic	24%	26%	24%	25%	23%	13%	12%	16%	8%	9%	12%	12%	9%	14%
Same	50%	51%	44%	45%	42%	45%	50%	46%	48%	38%	39%	52%	50%	42%
Less Optimistic	26%	23%	32%	30%	35%	42%	38%	38%	44%	53%	49%	36%	41%	43%
Net % Dealer Optimism	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%

COMMENTARY

USDA Forecast Calls for 13% Decline in 2014-15 Cash Receipts Outlook

The updated April USDA report was largely unchanged for both 2013-14 and 2014-15, with a minor downward revision to the average soybean price outlook and a small increase for wheat. The correlation between equipment sales and cash receipts has historically provided a good proxy for the next year's equipment demand.

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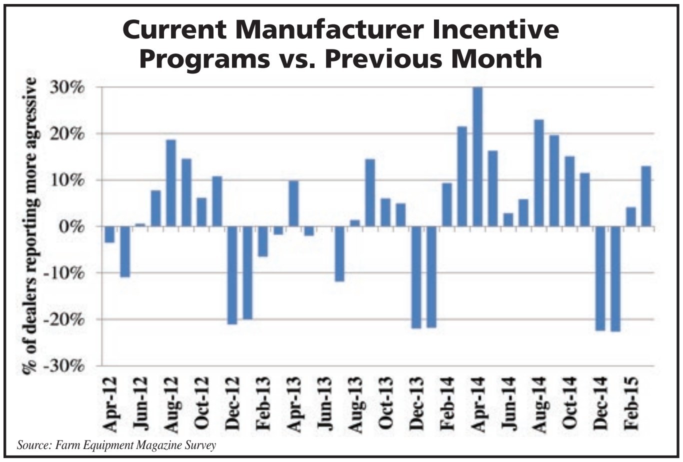
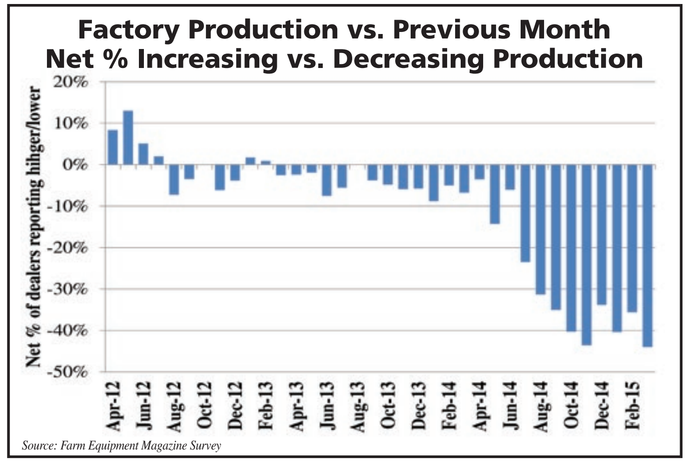
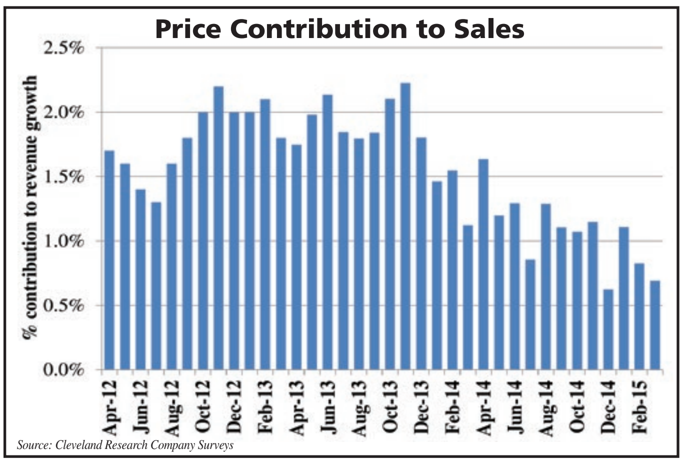
NEW EQUIPMENT TRENDS



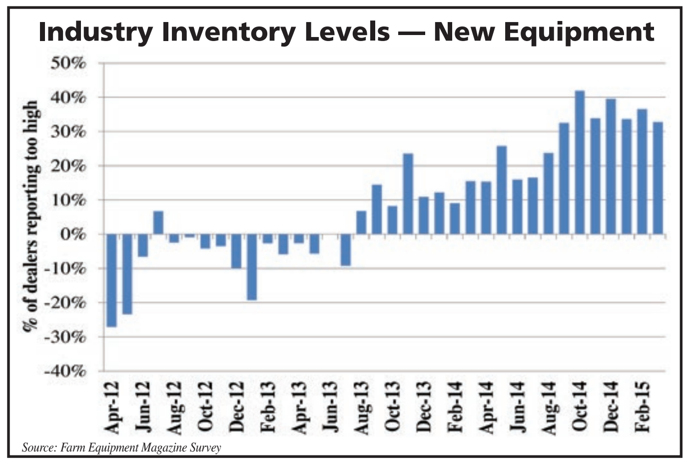
A net 13% of dealers report manufacturers were more aggressive with incentives in March, up from the net 4% in February. The relative magnitude of incentives is reported to be relatively low, as underlying equipment demand remains weak.



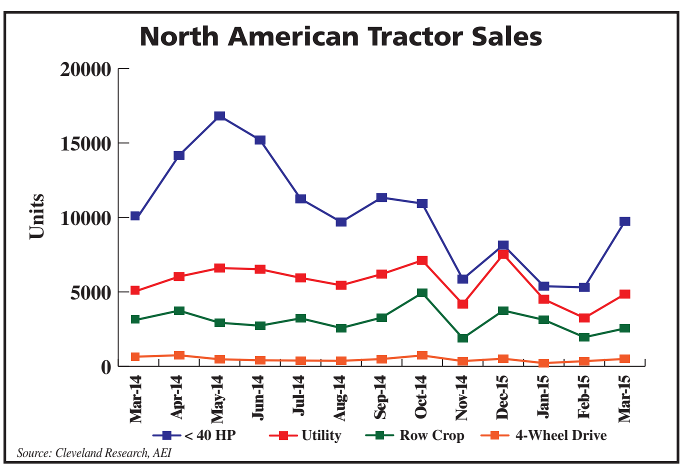
A net 44% of dealers report factory production was down in March, which compares to a net 36% of dealers reporting lower production volume the previous month and relatively consistent with the last several months.



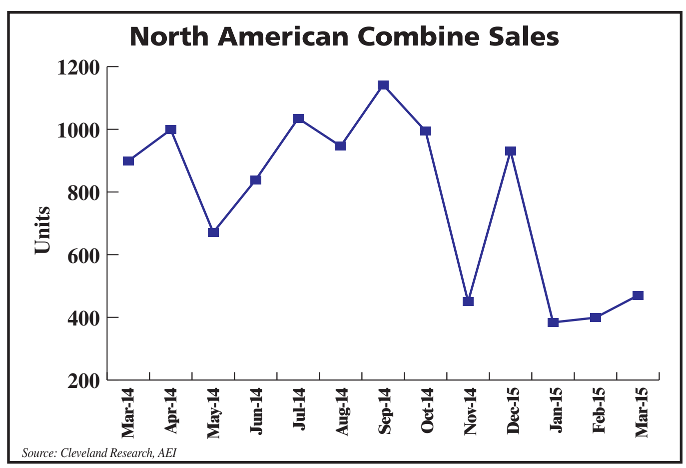
Dealers report price contributed just under 1% to total revenues in March, down slightly from the previous 2 months. Dealers in Canada report price increases are being implemented due to the significant change in exchange rates so far this year.



A net 33% of dealers report new equipment inventory as "too high" in March compared to a net 37% the previous month, remaining within a consistent range over the prior 6 months.

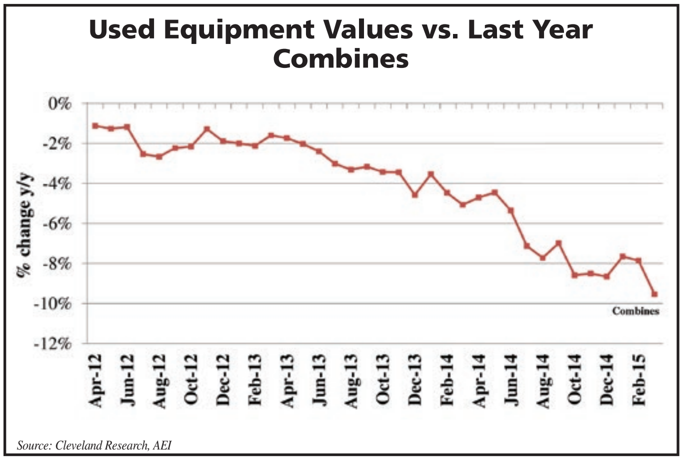


North American tractor sales were down year-over-year across the board. However, on a month-to-month basis sales grew in all categories in March, with <40 horsepower tractors seeing the largest increase in sales.

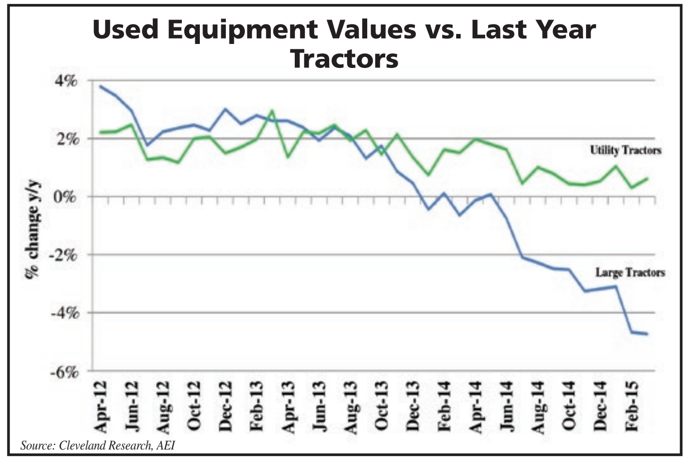


North American combine sales came in at 470 units in March compared to 399 the previous month. On a year-over-year basis, combine sales are down 48%.

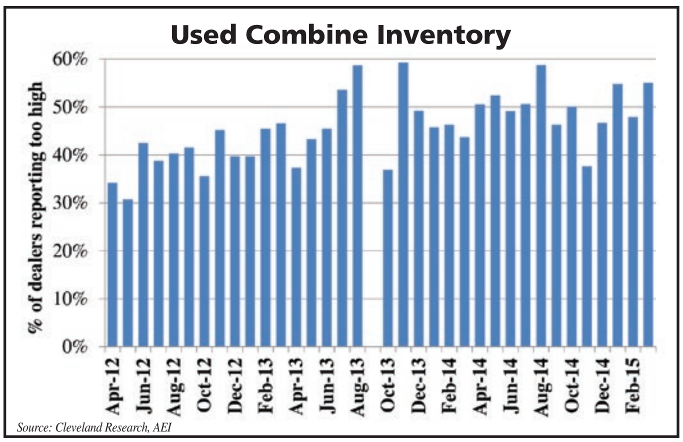
USED EQUIPMENT TRENDS



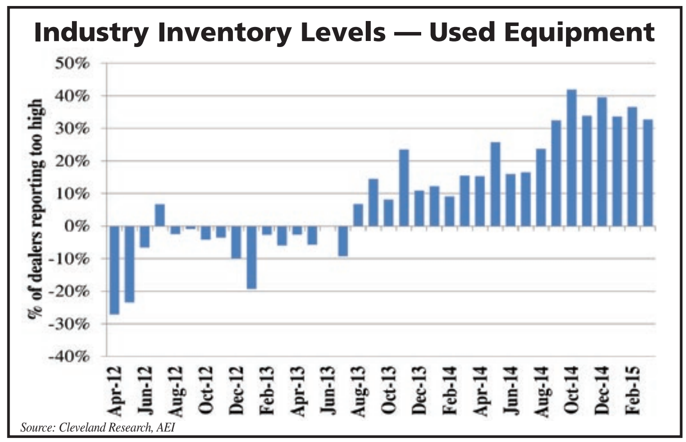
Used combine values are reported at down 10% year-over-year, a further drop from the 8% year-over-year decline reported the previous month.



Dealers reported used large tractor sales are down 5% year-over-year, in line with the average reported last month. Values of used small tractor are trending slightly higher year-over-year due to the higher relative demand from the livestock sector.

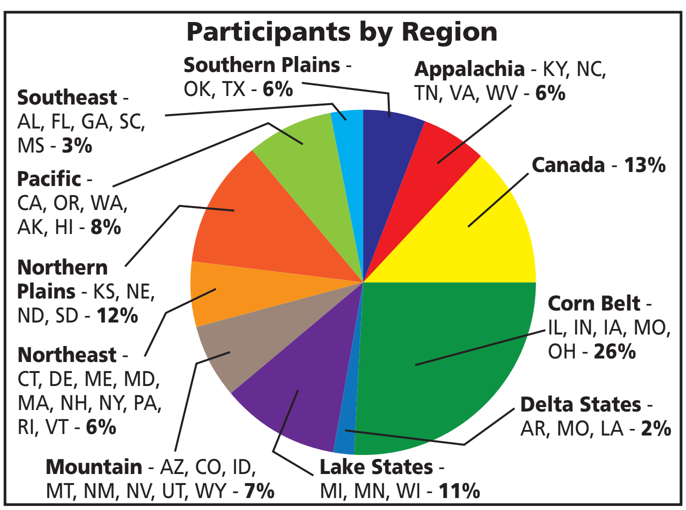


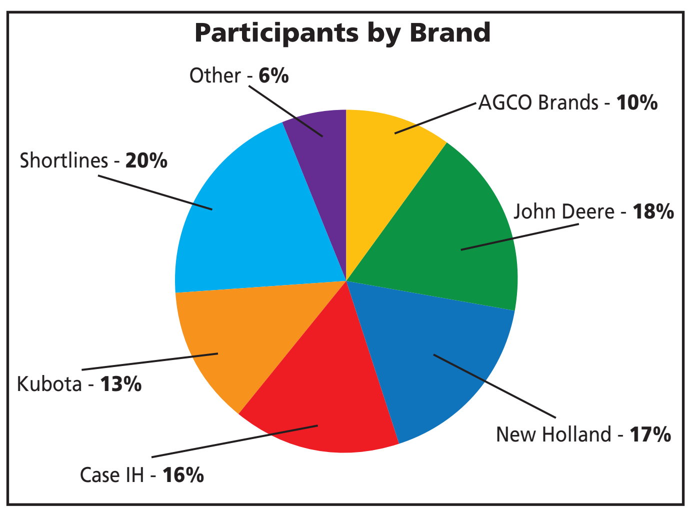
The percentage of dealers reporting used combines are too high rose again in March, but continues to trend within a range of 40-50% of dealers reporting excess combine inventory.



A net 47% of dealers reported used equipment inventories were "too high," above the net 44% the previous month and again setting a new high in our survey history.

APRIL 2015 SURVEY RESPONDENTS





The April survey had 110 respondents representing combined annual revenues of roughly $4.7 billion, covering a broad cross section of geographies and brands.