

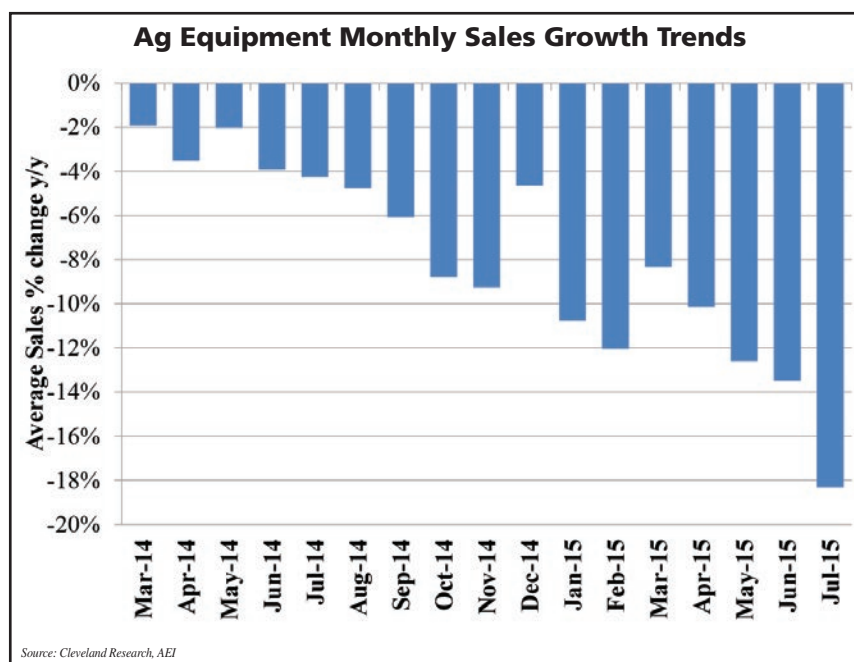
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 18% in July

- ✓ North American ag equipment dealers reported their sales, on average, were down 18% year-over-year in July, down from the 13% average decline in the previous month.
- ✓ A net 39% of dealers say their new equipment inventories are "too high," relatively in line with the previous month and remaining at the high end of our survey history.
- ✓ Used equipment inventories improved in July with a net 32% of dealers reporting inventory was "too high" vs. 40% in June.
- ✓ Dealers say they saw a 1-1.5% uptick in new equipment price realization in the last 3 months due to Tier 4 sales and OEM price push.



Results vs. Expectations															
	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Better than expected	29%	25%	26%	28%	24%	22%	21%	29%	26%	13%	20%	27%	23%	21%	18%
In line with expectations	52%	53%	49%	47%	47%	51%	40%	47%	57%	59%	50%	44%	39%	48%	45%
Worse than expected	19%	23%	26%	25%	29%	27%	39%	23%	18%	28%	28%	29%	36%	31%	36%
Net % (Better - Worse)	10%	2%	0%	3%	-5%	-5%	-18%	6%	8%	-14%	-8%	-2%	-13%	-10%	-18%

2015 Full-Year Outlook: Down 16%

- ✓ The full year dealer average sales growth forecast decreased to down 16% for the year compared to down 15% the previous month. A net 46% of dealers are projecting a sales decline for the year vs. 27% in June.
- ✓ Kubota dealers once again reported the most positive outlook calling for a 3% increase in sales. All other dealers reported sales in the red, with Case IH dealers reporting sales down 22% in July.

Dealer Outlook										
(% chg y/y)	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
AGCO	0%	-9%	0%	-10%	-11%	-12%	-5%	-3%	-9%	-15%
John Deere	-14%	-9%	-9%	-11%	-18%	-8%	-15%	-18%	-14%	-14%
New Holland	-8%	-10%	-3%	-6%	-11%	-10%	-4%	-9%	-8%	-10%
Case IH	-11%	-16%	-11%	-14%	-17%	-17%	-14%	-20%	-24%	-22%
Kubota	-6%	-14%	-6%	-11%	-13%	-17%	-10%	-14%	1%	-3%
Shortlines/Other	-4%	-16%	-9%	-7%	-10%	-13%	-10%	-7%	-8%	-11%
Overall	-11%	-10%	-8%	-11%	-15%	-10%	-12%	-15%	-15%	-16%

Dealer Optimism Drops Again

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, dropped to a net 21% of dealers being less optimistic (14% more optimistic, 52% same and 35% less optimistic) in July compared to 17% in June.

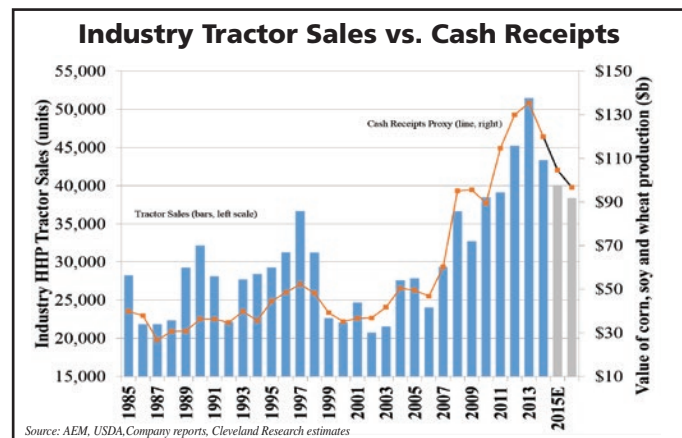
Optimism/Sentiment vs. Last Month																
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
More Optimistic	24%	25%	23%	13%	12%	16%	8%	9%	12%	12%	9%	14%	14%	12%	13%	14%
Same	44%	45%	42%	45%	50%	46%	48%	38%	39%	52%	50%	42%	47%	48%	58%	52%
Less Optimistic	32%	30%	35%	42%	38%	38%	44%	53%	49%	36%	41%	43%	40%	40%	30%	35%
Net % Dealer Optimism	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%	-26%	-26%	-18%	-21%

COMMENTARY

USDA Outlook for Cash Receipts

This chart illustrates the historical relationship between the value of production of U.S. corn, soybeans and wheat compared to the annual industry sales of high horsepower tractors.

USDA's August crop report was negative for future industry tractor sales, with USDA decreasing its forecast season average price by 2% to reflect weaker future prices recently, and increased its corn and soybean production forecasts by approximately 1%. Our cash receipts proxy now forecasts receipts down 8% year-over-year in 2015/16 compared to the June forecast of down 6% and the 2014/15 decline of 13%.



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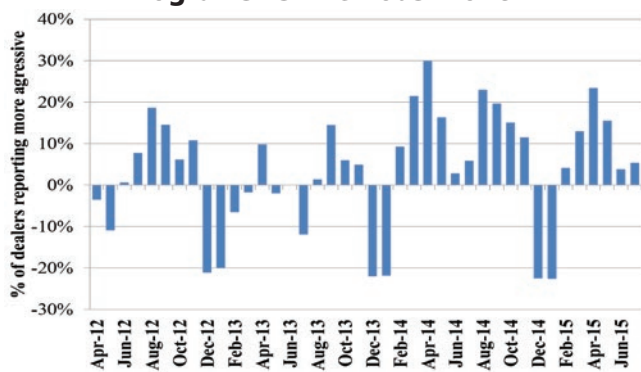
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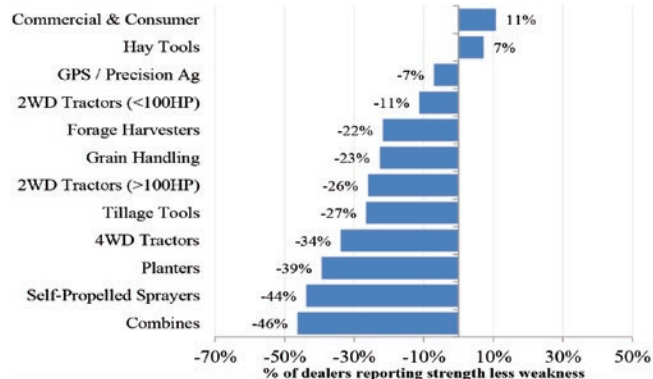
NEW EQUIPMENT TRENDS

Current Manufacturer Incentive Programs vs. Previous Month



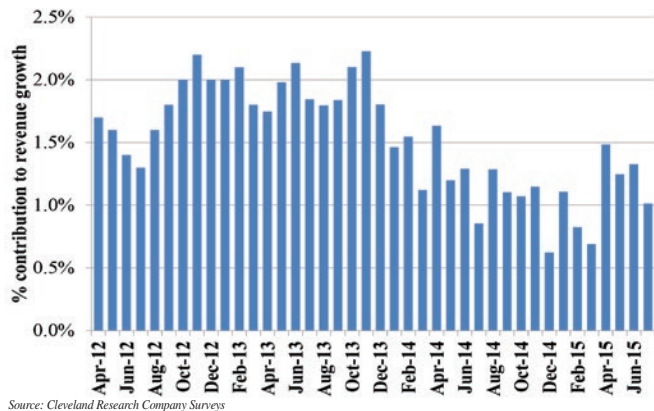
A net 5% dealers report OEM incentive programs were slightly more aggressive again in July vs. a net 4% of dealers the previous month.

Equipment Category Sales Trends



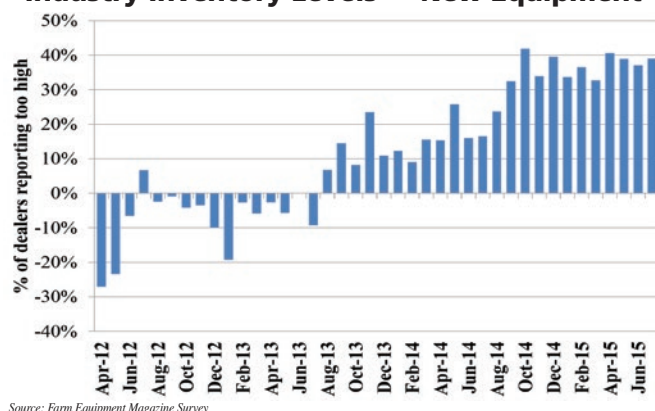
Consistent with last month, hay tools and commercial and consumer lawn equipment have shown strength in contrast to declines in other categories (combines, sprayer and planters in particular). We continue to see headwinds to large equipment sales.

Price Contribution to Sales



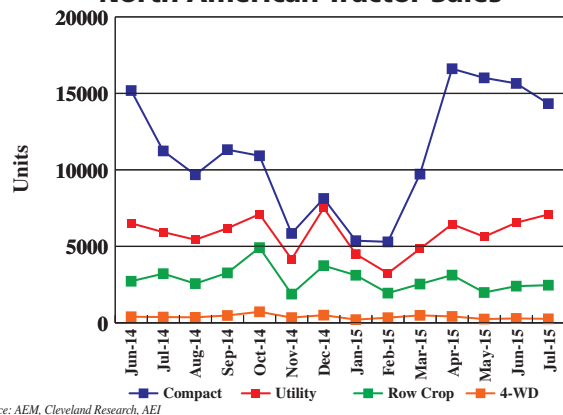
Dealers report several OEMs pushed through small price increases in recent months, which pushed up the average new equipment price realization across the dealer sample to 1-1.5% over the last 3 months. Tier 4 Final emissions related price increases are also noted as driving higher pricing recently.

Industry Inventory Levels — New Equipment



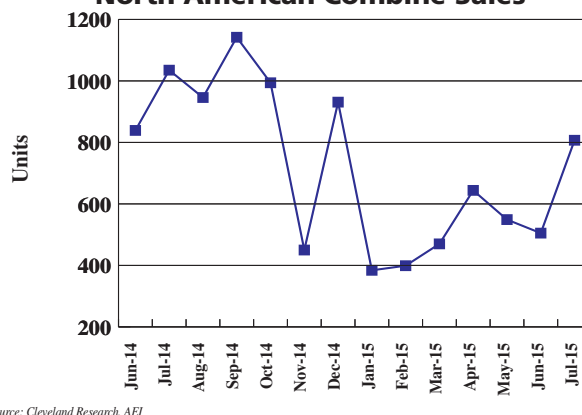
A net 39% of dealers reported new equipment inventories were too high, a slight decline from June. This marks the 11th month of new inventory levels reported as too high by more than a net 30% of dealers.

North American Tractor Sales



Total North American tractor sales were up 16% year-over-year in July, with row-crop and 4WD tractors down 23% and 30% respectively. Utility tractors saw a 20% year-over-year jump in sales in July and <40 horsepower tractors were up 28%.

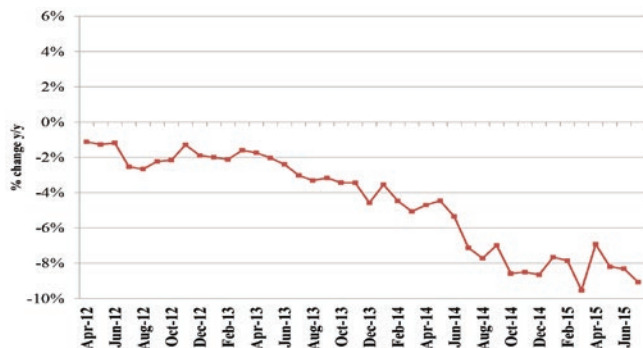
North American Combine Sales



North American combine sales came in at 807 units in July compared to 505 units in June. On a year-over-year basis, combine sales were down 22%.

USED EQUIPMENT TRENDS

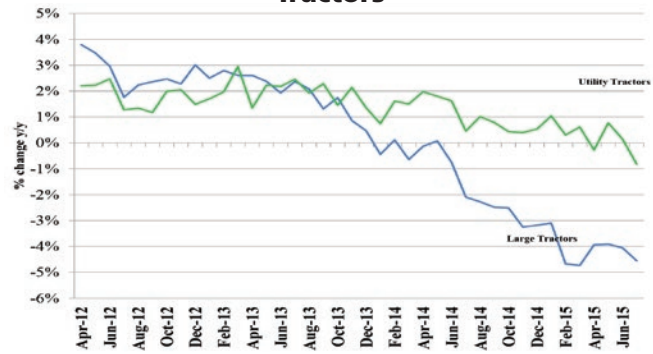
**Used Equipment Values vs. Last Year
Combines**



Source: Cleveland Research, AEI

Used combine prices remain weak at down 9% on average, a 1% deterioration from June.

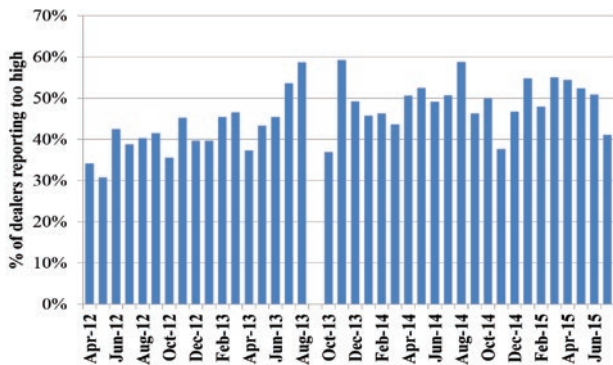
**Used Equipment Values vs. Last Year
Tractors**



Source: Cleveland Research, AEI

Used large tractor pricing is reported down 4.5% on average year-over-year, a deterioration of 0.5% from last month. July marks a return to negative pricing trends in utility tractors after several months of positive pricing.

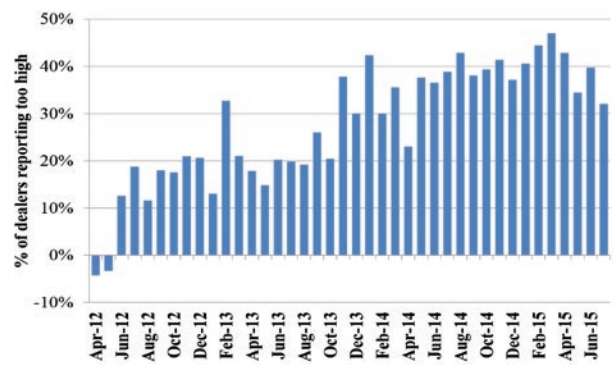
Used Combine Inventory



Source: Cleveland Research, AEI

Used combine inventory remains "too high" with a net 40% of dealers reporting inventories are above where they would like them. However, this was the most favorable level seen in 2015.

Industry Inventory Levels — Used Equipment

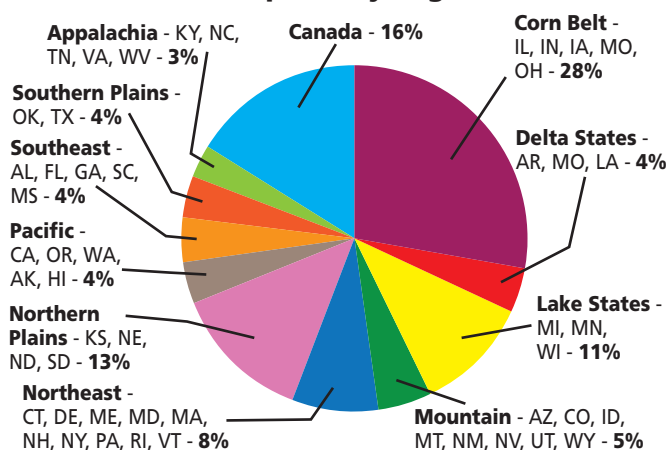


Source: Cleveland Research, AEI

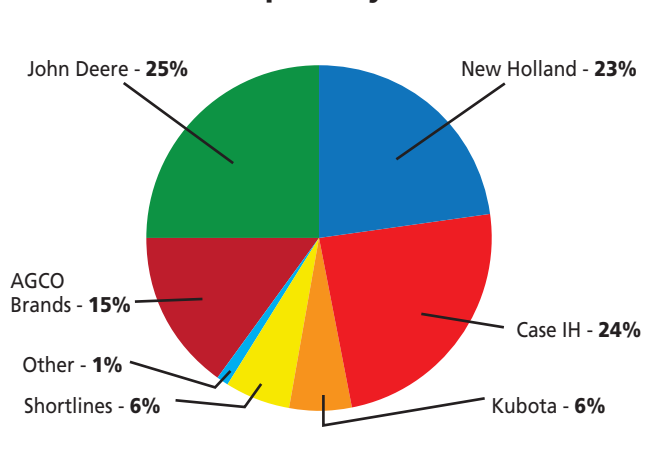
Used equipment inventories were better in July with 32% of dealers reporting inventory was too high vs. 40% the month prior. Anecdotally, many dealers report their efforts to sell used inventory instead of new has been helpful in recent months, but inventories are still too heavy in specific product categories.

AUGUST 2015 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The August survey had 83 respondents representing combined annual revenues of roughly \$4 billion, covering a broad cross section of geographies and brands.