

Ag Equipment Intelligence's

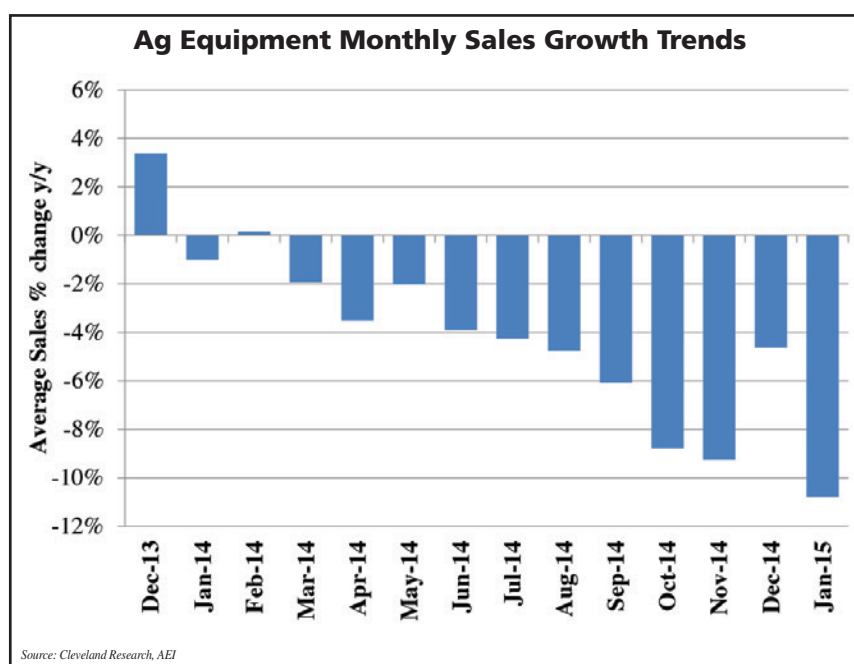
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 11% in January

- ✓ Ag equipment dealers reported sales were down 11% year-over-year on average in January.
- ✓ New Holland dealers reported the best results with sales down 4%, while Case IH dealers once again reported the largest decline at down 19%.
- ✓ A net 8% of dealers reported sales were better than expected in the month, relatively consistent with the December results.
- ✓ A net 34% of dealers reported new equipment inventories were "too high" in January compared to a net 40% the previous month.
- ✓ A net 41% of dealers reported used equipment inventories were "too high" in January, up from the 37% who reported inventories were too high in December.
- ✓ Incoming orders declined 12% year-over-year on average in January, inline with the decline seen the previous month.



Results vs. Expectations														
	Dec-13	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Better than expected	39%	25%	20%	21%	21%	29%	25%	26%	28%	24%	22%	21%	29%	26%
In line with expectations	45%	51%	55%	54%	54%	52%	53%	49%	47%	47%	51%	30%	47%	57%
Worse than expected	16%	24%	25%	26%	25%	19%	23%	26%	25%	29%	27%	39%	23%	18%
Net % (Better - Worse)	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%	6%	8%

2015 Dealer Outlook Sees Slight Drop

- ✓ For 2015, dealers are now expecting sales to decline 11% year-over-year on average, slightly worse than the down 8% forecast last month but similar to the outlook provided over the last several months.
- ✓ New Holland dealers are the most optimistic, calling for a 6% decline in sales. Case IH dealers are the least optimistic, forecasting sales to be down 14% in 2015.

Dealer Outlook													
(% chg y/y)	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
2014 Outlook									2015 Outlook				
Overall	-3%	-4%	-4%	-6%	-6%	-8%	-4%	-9%	-9%	-11%	-10%	-8%	-11%
By Brand	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
AGCO	2%	0%	0%	-1%	2%	-4%	2%	10%	6%	0%	-9%	0%	-10%
John Deere	-3%	-3%	-2%	-6%	-6%	-6%	-4%	-10%	-12%	-14%	-9%	-9%	-11%
New Holland	-1%	-6%	-9%	-3%	-3%	-6%	1%	0%	9%	-8%	-10%	-3%	-6%
Case IH	-5%	-6%	-9%	-11%	-9%	-14%	-7%	-16%	-12%	-11%	-16%	-11%	-14%
Kubota	-2%	-2%	-10%	-3%	-4%	-7%	-1%	3%	7%	-6%	-14%	-6%	-11%
Shortlines	-4%	1%	-2%	-8%	-2%	-5%	1%	-9%	3%	-12%	-16%	-7%	-7%
Other	7%	NA	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 January. A net 24% of dealers reported a less optimistic outlook for the year (12% more optimistic, 52% the same, 36% less optimistic). This compares to a net 37% of dealers who reported a less optimistic outlook in December.

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

COMMENTARY

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

The updated February USDA report left the outlook for 2013-14 unchanged at down 11% from last month. Likewise, the 2014-15 outlook is holding steady at down 13%. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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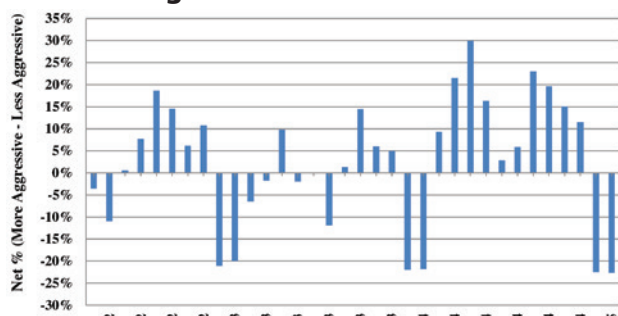
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NEW EQUIPMENT TRENDS

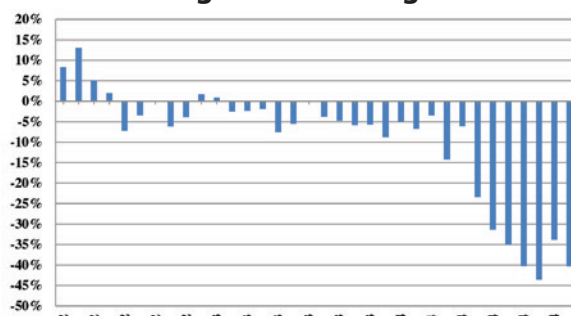
Current Manufacturer Incentive Programs vs. Previous Month



Source: Farm Equipment Magazine Survey

A net 23% of dealers report manufacturers were less aggressive with incentives in January (9% more aggressive; 58% the same; 32% less aggressive). Historically, manufacturer incentives in December and January have been less aggressive than other months

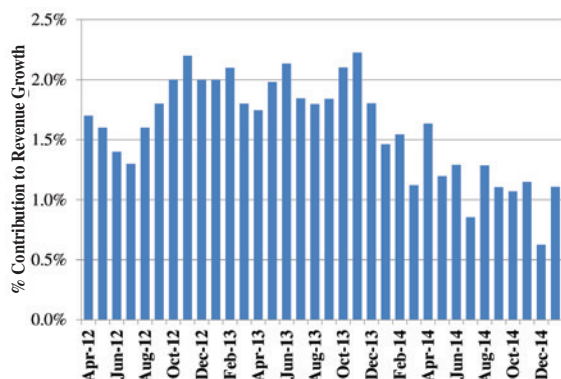
Factory Production vs. Previous Month — Net % Increasing vs. Decreasing Production



Source: Farm Equipment Magazine Survey

A net 40% of dealers report factory production was down in January compared to December vs. a net 34% of dealers reporting lower production volume the previous month.

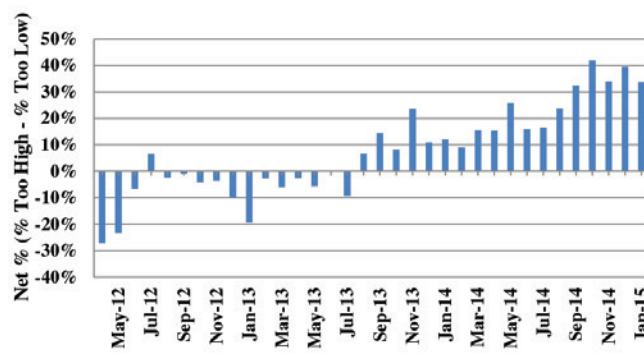
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 1% to total January revenue growth, up slightly from last month but similar to the trend observed during previous months.

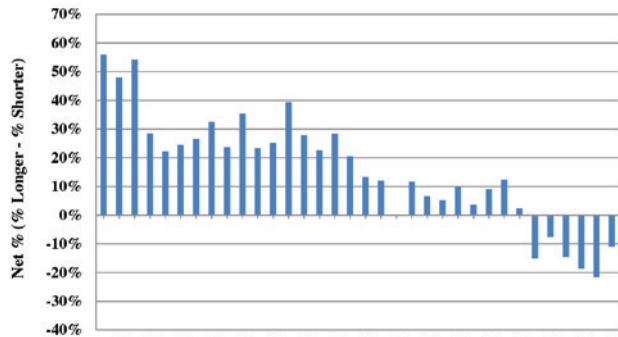
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 34% of dealers report new equipment inventory as "too high" in January (39% too high; 55% about right; 5% too low), compared to a net 40% the previous month, remaining within a consistent range over the last four months.

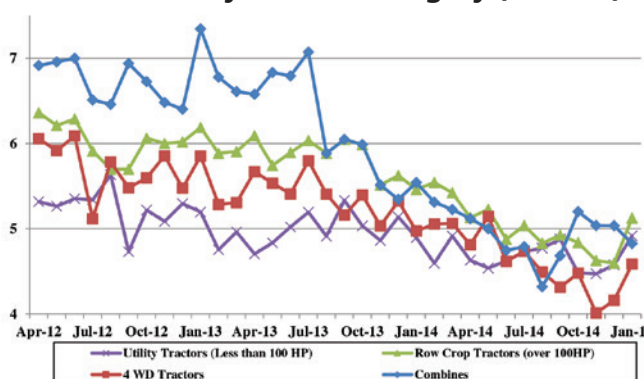
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 11% of dealers report shorter factory lead times compared to last month (18% longer; 52% same; 29% shorter), the sixth consecutive month of contraction.

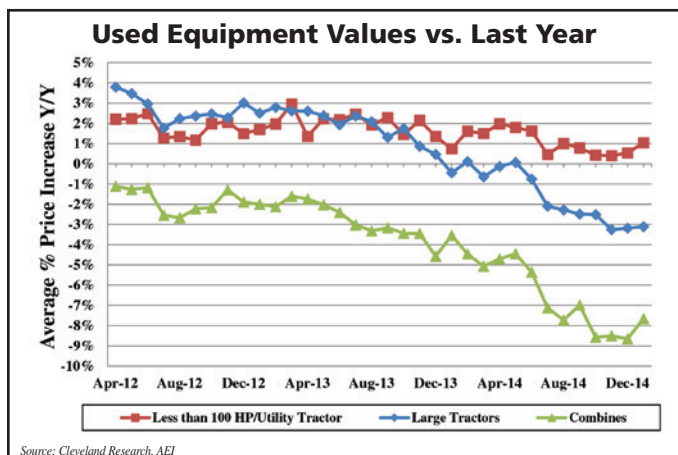
Lead Times by Product Category (Months)



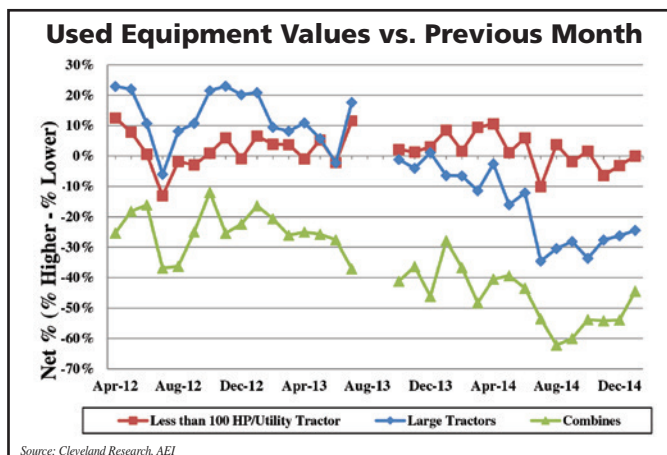
Source: Cleveland Research, AEI

Tractor lead times have generally remained in the 4-5 month range for nearly all product types over the last several months, down from 5-6 months for much of 2012 and 2013. Combine lead times remain short at under 5 months with broad availability.

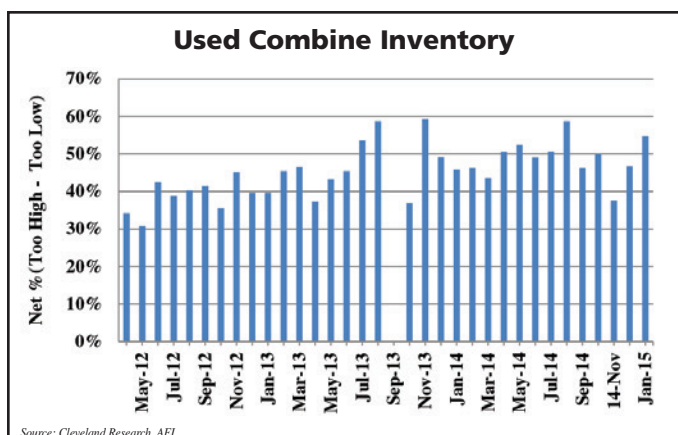
USED EQUIPMENT TRENDS



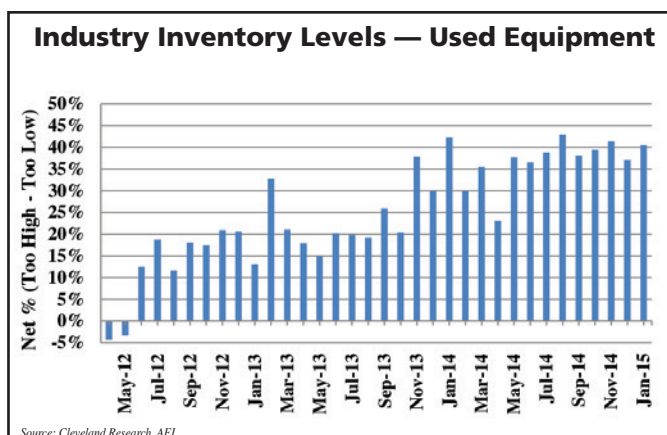
Used combine values are reported at down 8% year-over-year, a slight improvement from last month. Large tractor values are down 3% year-over-year, consistent with prior months.



On an absolute basis, all three product category values were reported as improving in January vs. December.

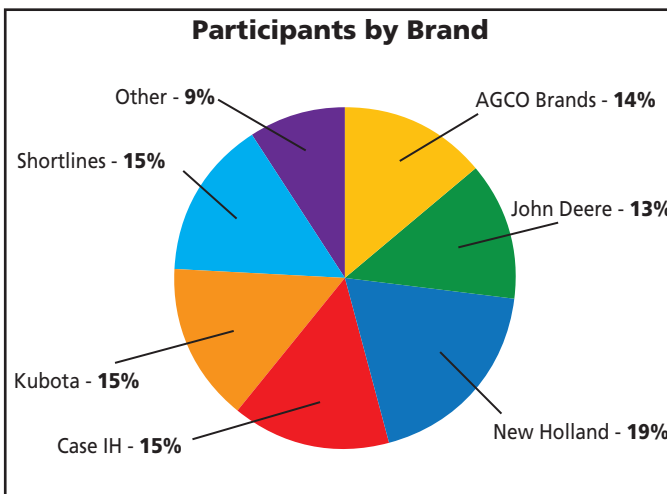
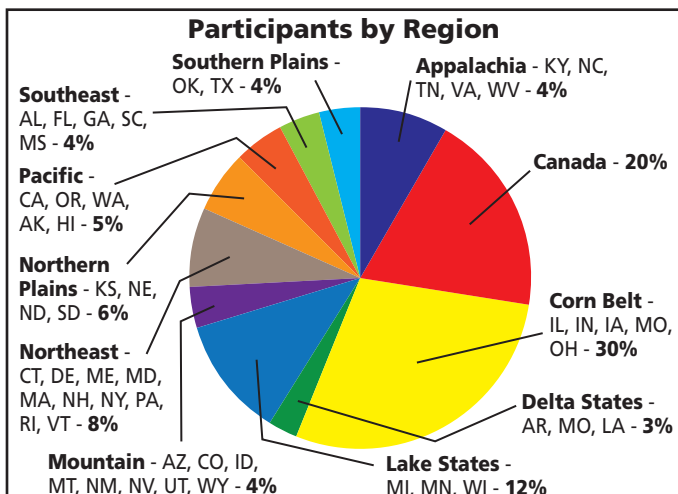


A net 55% of dealers reported used combine inventories were "too high," up from a net 47% the previous month, indicating the combine backlog may be worsening.



A net 40% of dealers reported used equipment inventory as "too high" in January (46% too high; 48% about right; 6% too low), slightly higher than the net 37% the previous month.

FEBRUARY 2015 SURVEY RESPONDENTS



The February survey had 114 respondents representing combined annual revenues of roughly \$4.3 billion, covering a broad cross section of geographies and brands.