

Ag Equipment Intelligence's

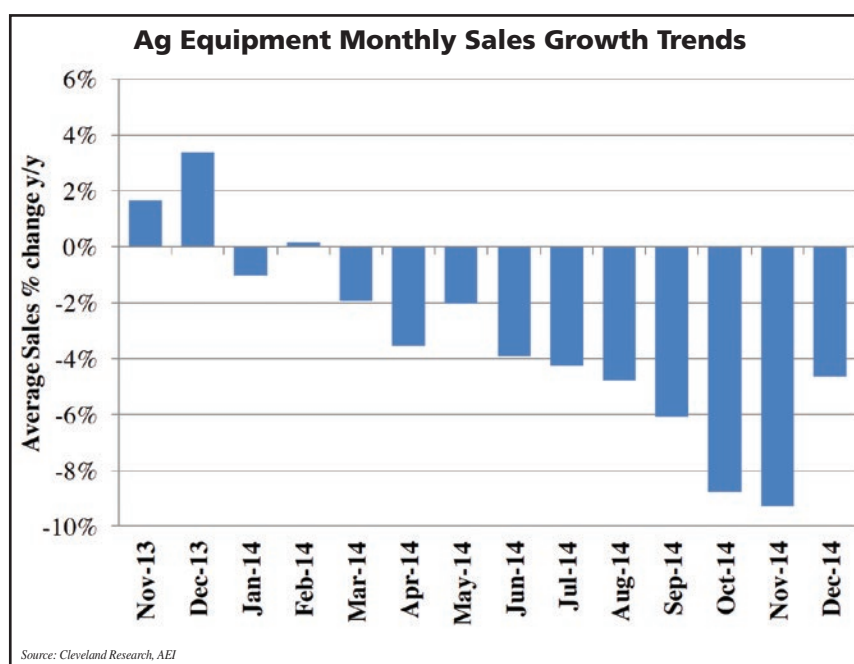
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 5% in December

- ✓ Ag equipment dealers reported sales were down 5% year-over-year on average in December.
- ✓ "Other" dealers reported the strongest growth at up 9% year-over-year, while AGCO dealers reported the largest year-over-year declines at down 13% on average.
- ✓ A net 6% of dealers reported sales were better than expected in the month given the improvement in year-over-year trends compared to the last 2 months.
- ✓ A net 39% of dealers reported new equipment inventories were "too high" in December compared to a net 34% last month.
- ✓ A net 37% of dealers reported used equipment inventories were "too high" in December, slightly less than the net 41% last month.
- ✓ Incoming orders for new equipment declined 12% year-over-year on average in December, which compares to the 16% average declines in November.



Results vs. Expectations														
	Nov-13	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
Better than expected	24%	39%	25%	20%	21%	21%	29%	25%	26%	28%	24%	22%	21%	29%
In line with expectations	56%	45%	51%	55%	54%	54%	52%	53%	49%	47%	47%	51%	30%	47%
Worse than expected	20%	16%	24%	25%	26%	25%	19%	23%	26%	25%	29%	27%	39%	23%
Net % (Better - Worse)	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%	6%

2015 Dealer Outlook Improves Slightly

- ✓ For 2015, dealers are now expecting sales to decline 8% year-over-year on average, slightly better than the down 10% forecast the previous month. Dealers noted that several manufacturers were “stuffing” the dealer channel with early equipment delivery
- ✓ AGCO dealers are the most optimistic, forecasting sales to be flat, while Case IH and “Other” dealers are more pessimistic, predicting sales to be down 11%.

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

Dealer Optimism Improves

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved in December. A net 37% of dealers reported a less optimistic outlook for the year (12% more optimistic, 39% the same, 49% less optimistic). This compares to a net 44% of dealers who reported a less optimistic outlook in November.

Optimism/Sentiment vs. Last Month														
	Nov-13	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
More Optimistic	14%	9%	12%	24%	26%	24%	25%	23%	13%	12%	16%	8%	9%	12%
Same	45%	52%	52%	50%	51%	44%	45%	42%	45%	50%	46%	48%	38%	39%
Less Optimistic	41%	39%	36%	26%	23%	32%	30%	35%	42%	38%	38%	44%	53%	49%
Net % Dealer Optimism	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%	-37%

COMMENTARY

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

The updated January USDA report left the outlook for 2013-14 unchanged at down 11% from the previous month. However, the 2014-15 outlook was improved slightly to down 13% from down 15% previously. The correlation between equipment sales and cash receipts has historically provided a good proxy for next year's equipment demand.

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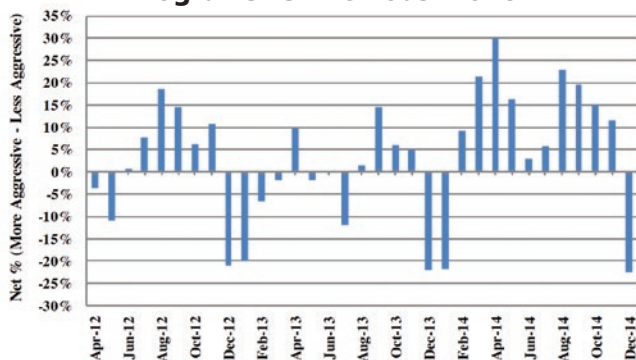
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NEW EQUIPMENT TRENDS

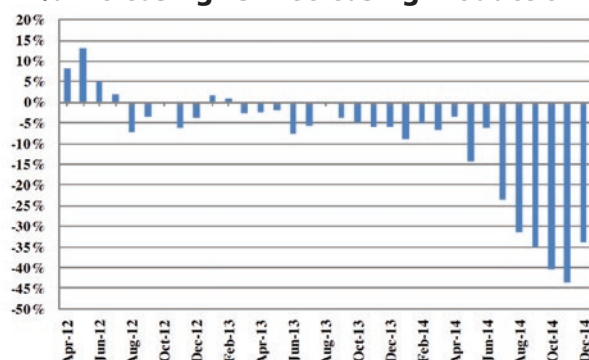
Current Manufacturer Incentive Programs vs. Previous Month



Source: Farm Equipment Magazine Survey

A net 23% of dealers report manufacturers were less aggressive with incentives in December (12% more aggressive; 53% the same; 35% less aggressive). Historically, manufacturer incentives in December have been reported as less aggressive vs. November.

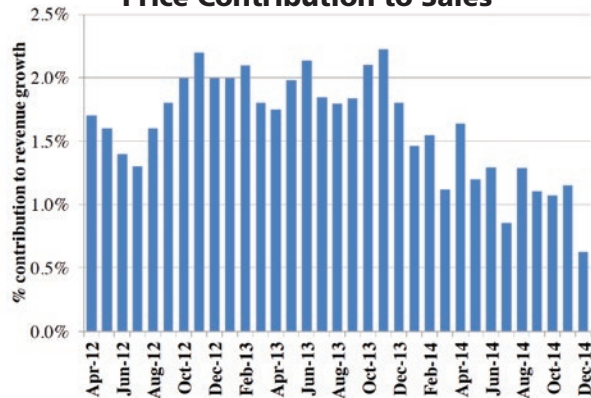
Factory Production vs. Previous Month — Net % Increasing vs. Decreasing Production



Source: Farm Equipment Magazine Survey

A net 34% of dealers report factory production was down in December compared to November vs. a net 44% of dealers reporting lower production volume in the previous month.

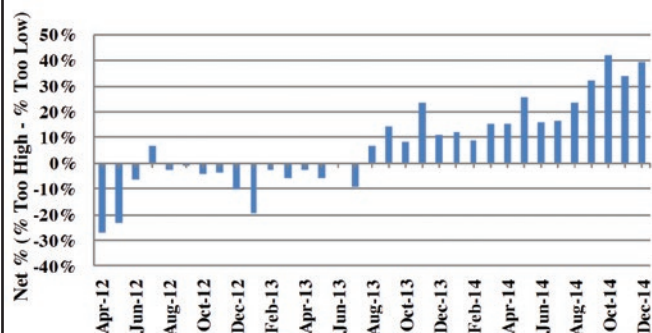
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report price contributed roughly 0.6% to total December revenue growth vs. the 1.1% contribution in November.

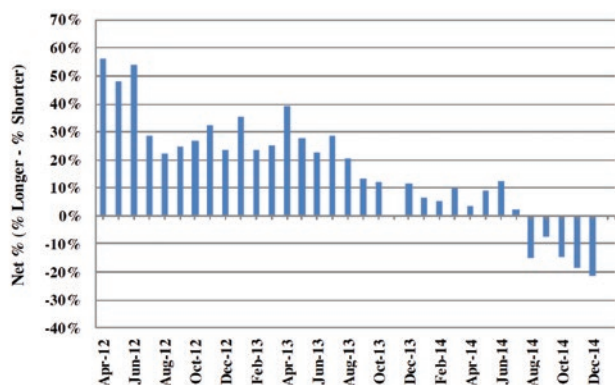
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 39% of dealers report new equipment inventory was "too high" in December (46% too high; 47% about right; 7% too low), compared to a net 34% last month.

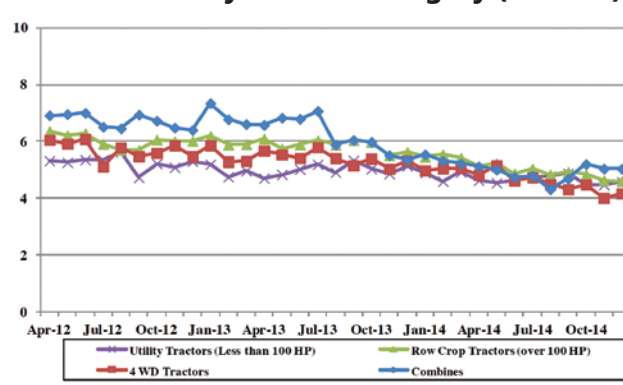
Lead Times vs. Prior Month



Source: Cleveland Research, AEI

Overall, a net 22% of dealers report shorter factory lead-times compared to last month (12% longer, 54% the same; 34% shorter).

Lead Times by Product Category (Months)

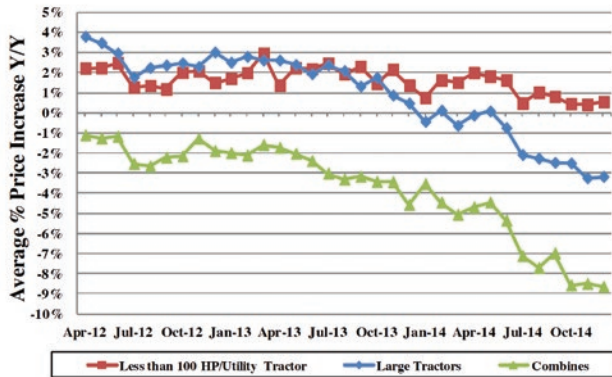


Source: Cleveland Research, AEI

Combine, 4WD, row-crop and utility tractor lead times were relatively similar on average vs. the previous month.

USED EQUIPMENT TRENDS

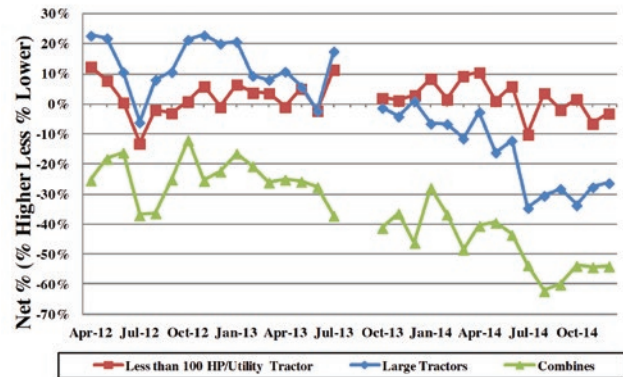
Used Equipment Values vs. Last Year



Source: Cleveland Research, AEI

Used combine values are reported at down 9% year-over-year, similar to last month while large tractor values are reported at down 3% year-over-year and small tractor values are relatively flat year-over-year.

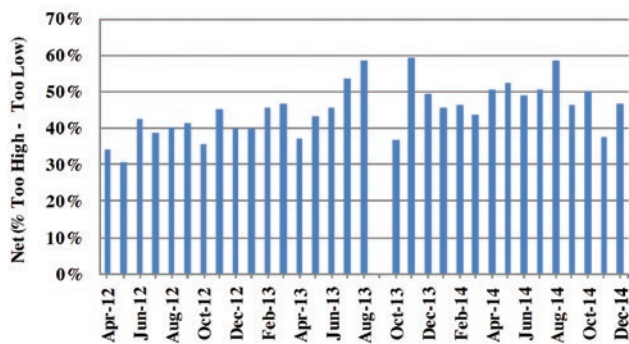
Used Equipment Values vs. Previous Month



Source: Cleveland Research, AEI

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

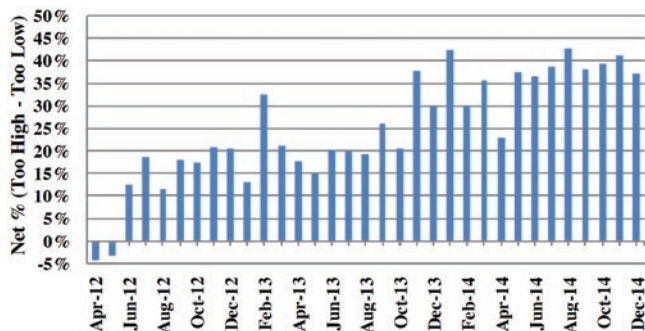
Used Combine Inventory



Source: Cleveland Research, AEI

A net 47% of dealers reported used combine inventories were "too high," well above the net 38% last month.

Industry Inventory Levels — Used Equipment

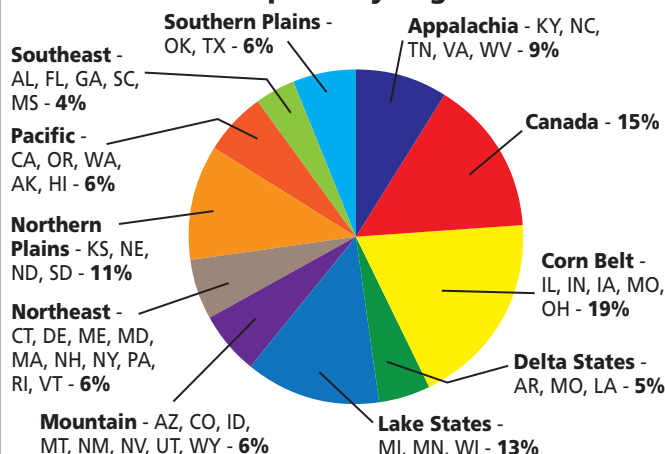


Source: Cleveland Research, AEI

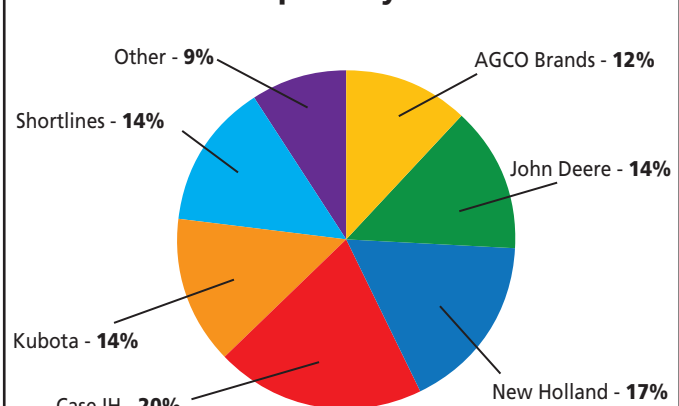
A net 37% of dealers reported used equipment inventory as "too high" in December (49% too high; 39% about right; 12% too low), slightly below the net 41% last month.

JANUARY 2015 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The January 2015 survey had 156 respondents representing combined annual revenues of roughly \$6.4 billion, covering a broad cross section of geographies and brands.