

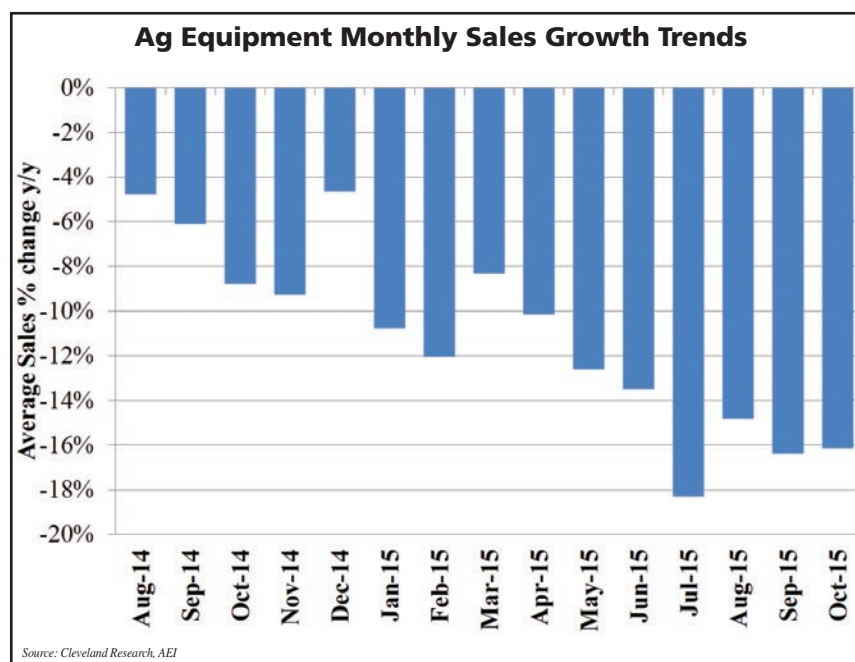
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 16% in October

- ✓ North American ag equipment dealers reported their sales, on average, were down 16% year-over-year in October, in line with the decline reported the previous month.
- ✓ A net 53% of dealers say their new equipment inventories are "too high," a deterioration from a net 38% in September who reported new equipment inventory was "too high."
- ✓ Used equipment inventories worsened in October with a net 44% of dealers reporting their inventory was "too high" vs. 33% the month prior.
- ✓ Dealers report that used large tractor pricing is down 9% on average and used combine prices are down 13% in October vs. a 15% decline in September.



Results vs. Expectations															
	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
Better than expected	28%	24%	22%	21%	29%	26%	13%	20%	27%	23%	21%	18%	16%	19%	15%
In line with expectations	47%	47%	51%	40%	47%	57%	59%	50%	44%	39%	48%	45%	56%	53%	43%
Worse than expected	25%	29%	27%	39%	23%	18%	28%	28%	29%	36%	31%	36%	28%	28%	41%
Net % (Better - Worse)	3%	-5%	-5%	-18%	6%	8%	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%

2015 Full-Year Outlook: Down 14%

- ✓ The full year dealer average sales growth forecast was in line with September's results at down 14% year-over-year. A net 42% of dealers are forecasting a sales decline for the year, down from 35% the previous month.
- ✓ Initial 2016 average dealer sales forecasts are for a 9% decline vs. down 6% the prior month.
- ✓ Kubota dealers once again reported the most positive outlook calling for a 10% increase in sales. Case IH dealers are calling for the largest drop in sales, forecasting a 16% decline.

Dealer Outlook												
(% chg y/y)	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
AGCO	-9%	0%	-10%	-11%	-12%	-5%	-3%	-9%	-15%	-4%	-15%	-14%
John Deere	-9%	-9%	-11%	-18%	-8%	-15%	-18%	-14%	-14%	-14%	-11%	-15%
New Holland	-10%	-3%	-6%	-11%	-10%	-4%	-9%	-8%	-10%	-17%	-11%	-12%
Case IH	-16%	-11%	-14%	-17%	-17%	-14%	-20%	-24%	-22%	-20%	-26%	-16%
Kubota	-14%	-6%	-11%	-13%	-17%	-10%	-14%	1%	3%	-1%	13%	10%
Shortlines/Other	-16%	-9%	-7%	-10%	-13%	-10%	-7%	-8%	-11%	-16%	-9%	-11%
Overall	-10%	-8%	-11%	-15%	-10%	-12%	-15%	-15%	-16%	-15%	-14%	-14%

Dealer Optimism Declines

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 25% of dealers being less optimistic (8% more optimistic, 60% same and 33% less optimistic) in October, down 2 percentage points from September.

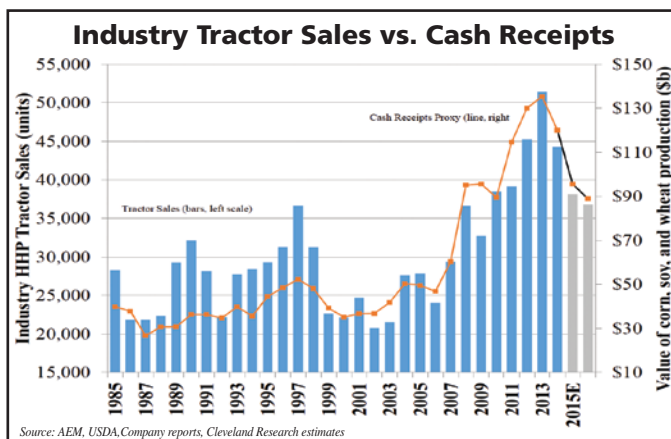
Optimism/Sentiment vs. Last Month															
	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15
More Optimistic	12%	16%	8%	9%	12%	12%	9%	14%	14%	12%	13%	14%	11%	13%	8%
Same	50%	46%	48%	38%	39%	52%	50%	42%	47%	48%	58%	52%	45%	51%	60%
Less Optimistic	38%	38%	44%	53%	49%	36%	41%	43%	40%	40%	30%	35%	43%	36%	33%
Net % Dealer Optimism	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-23%	-25%

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 November crop report remained negative for future industry tractor sales, and was a slight deterioration from the October report. The USDA reduced its forecast season average corn price forecast by 4% to reflect better yields and a decrease in exports and ethanol production. Soybean prices declined by 3% due to improved yields. Our cash receipts proxy now forecasts receipts down 9% year-over-year in 2015-2016 compared to the October forecast of down 7% and the 2014-2015 decline of 13%.



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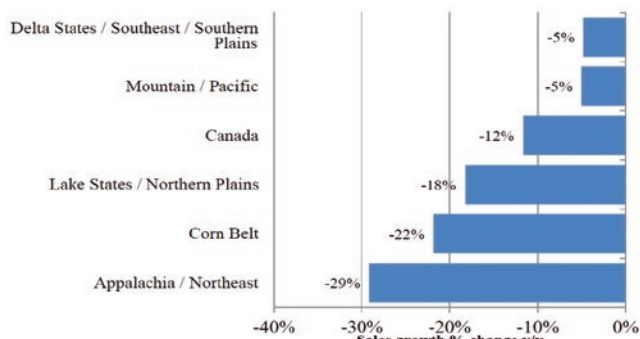
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NEW EQUIPMENT TRENDS

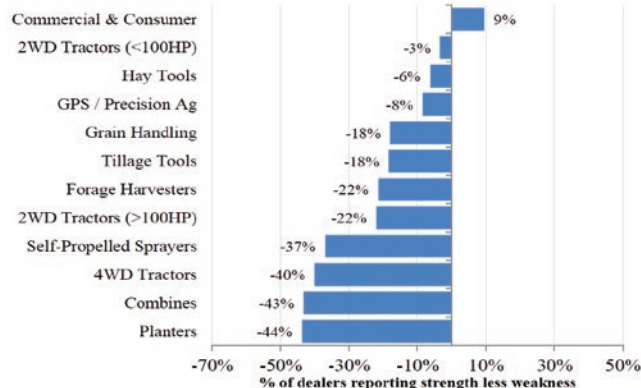
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends remained weak across all regions in October. The Delta States/Southeast/Southern Plains and Mountain/Pacific regions remain the stronger markets, but have entered negative territory after posting slight growth in September.

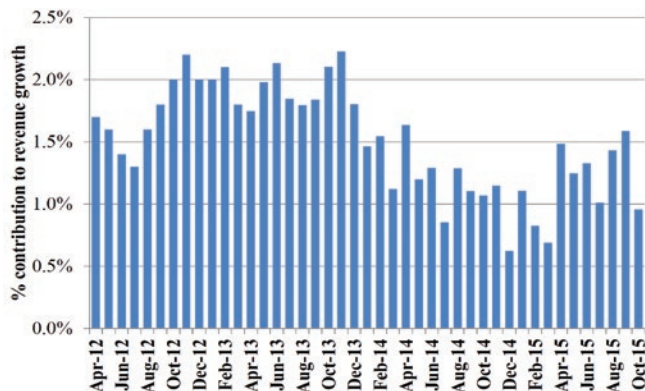
Equipment Category Sales Trends



Source: Farm Equipment Magazine Survey

Commercial and consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). Almost every category showed a relative deterioration from the prior month trend, with the exception of combines and tillage tools.

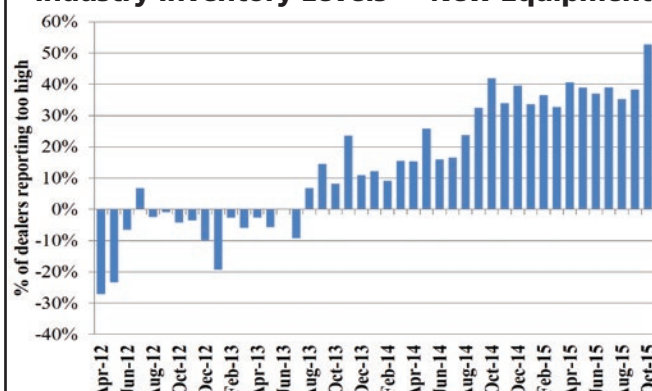
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report several OEMs pushed through small price increases in recent months, which has modestly raised average new equipment price realization of about 1-1.5%. The effect of the strong U.S. dollar on Canadian exchange rate has also played a part in price inflation within North America.

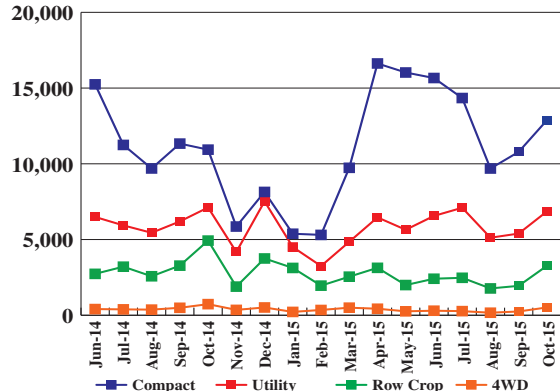
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 53% of dealers reported new equipment inventories are "too high" vs. 38% in September and 38% in the third quarter. This marks 14 months of new inventory levels reported as "too high" by more than a net 30% of dealers, and is the worst reading in recent history.

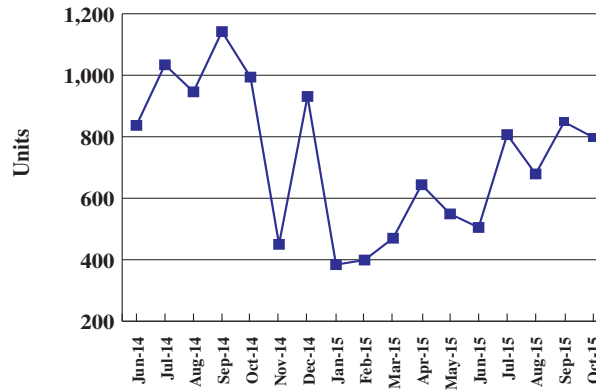
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were down 1% year-over-year in October, with row-crop and 4WD tractors down 34% and 30% respectively. Sales for <40 horsepower tractors were up 18% in October vs. October 2014.

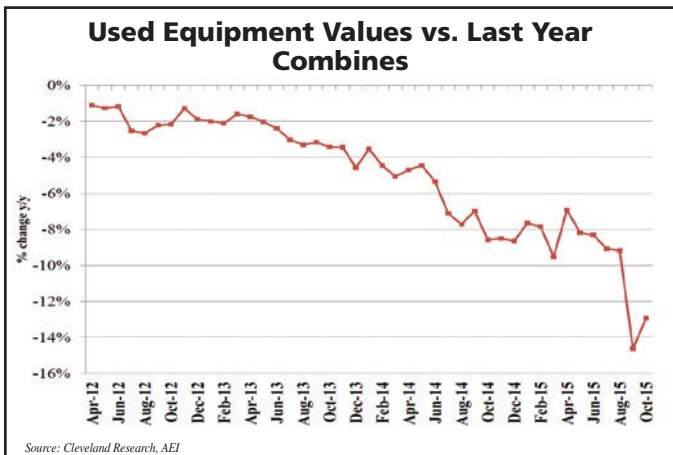
North American Combine Sales



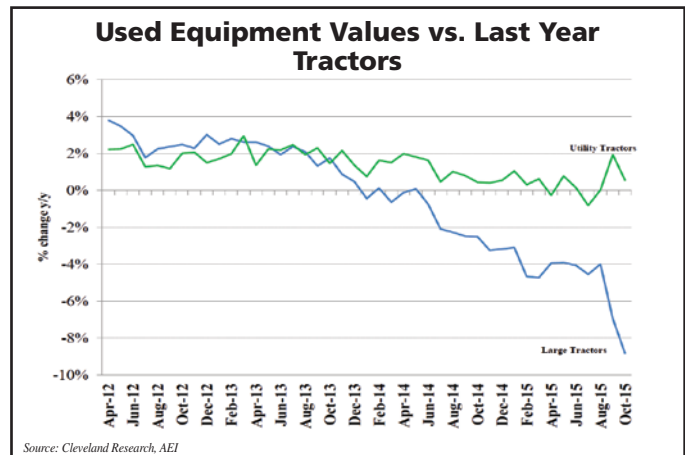
Source: Cleveland Research, AEI

North American combine sales came in at 799 units in October compared to 983 units in October 2014. On a year-over-year basis, combine sales were down 19%.

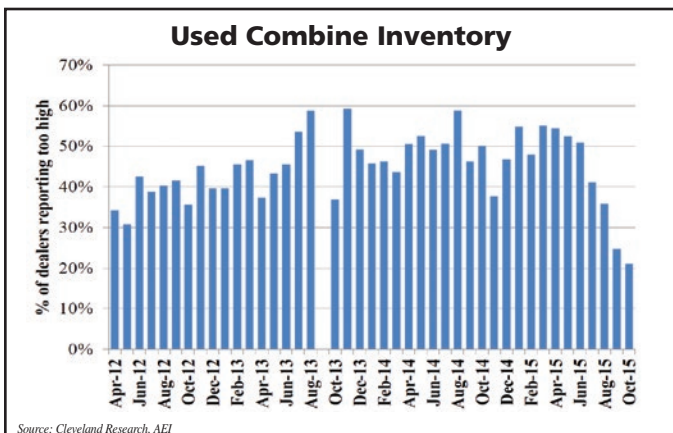
USED EQUIPMENT TRENDS



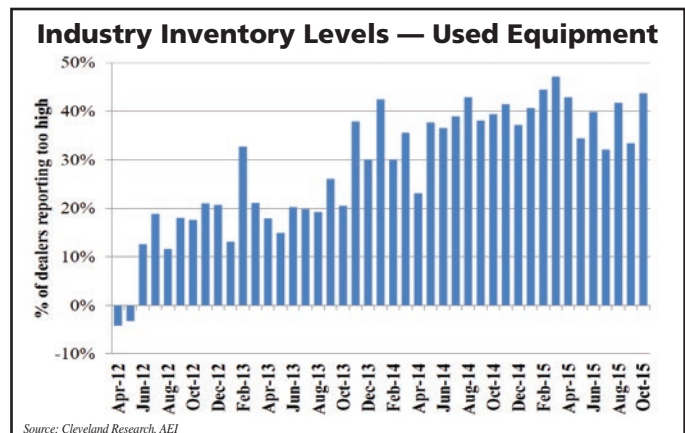
Used combine pricing improved slightly, declining 13% year-over-year in October vs. down 15% the previous month.



To provide better insight within the used tractor market we've added additional layers of granularity. October saw flat pricing in small tractors. Large tractors were reported down 9% year-over-year on average, a step-down vs. down 7% in September.

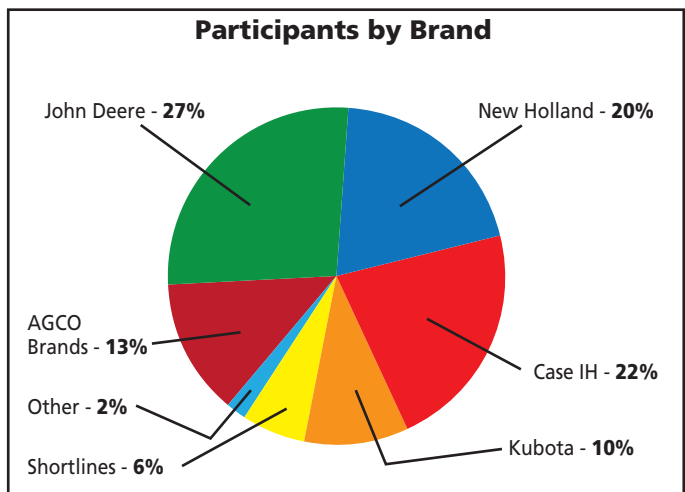
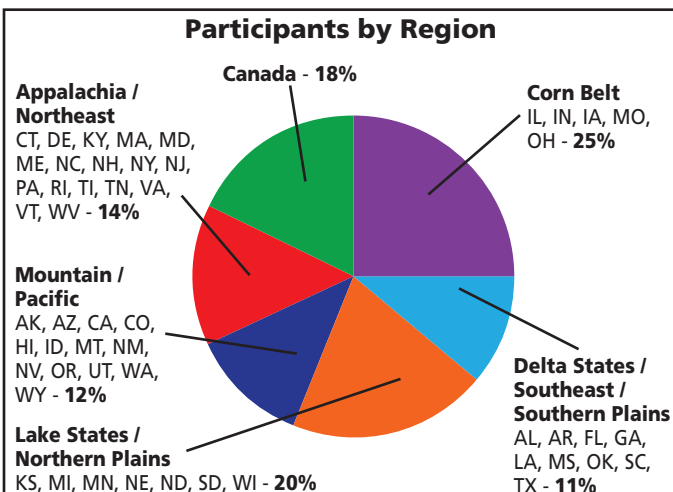


The used combine inventory remains too high with a net 21% of dealers reporting inventories above where they would like them. However, combine inventory has improved every month since March with October's reading being the most favorable in 2015.



A net 44% of dealers reported used equipment inventory as too high vs. 33% the previous month.

NOVEMBER 2015 SURVEY RESPONDENTS



The November survey had 126 respondents representing combined annual revenues of roughly \$6.4 billion, covering a broad cross section of geographies and brands.