

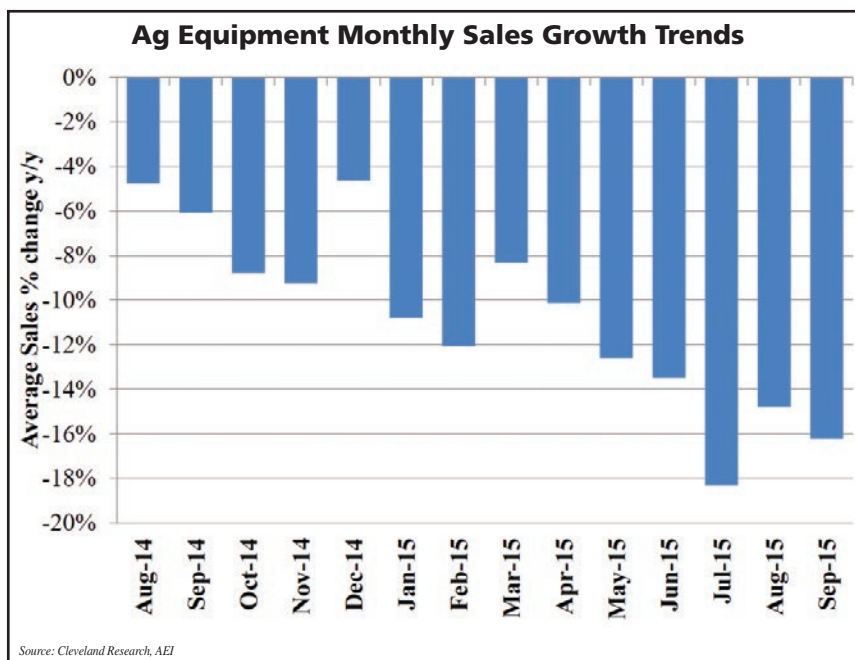
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 16% in September

- ✓ North American ag equipment dealers reported their sales, on average, were down 16% year-over-year in September, in line with the 15% average decline in the previous month.
- ✓ A net 38% of dealers say their new equipment inventories are "too high," a decline from a net 35% of dealers in August.
- ✓ Used equipment inventories improved in September with a net 33% of dealers reporting inventory was "too high" vs. 42% the month before.
- ✓ Dealers say they saw a 1-1.5% uptick in new equipment price realization in the last 6 months due to Tier 4 sales and OEM price push.



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
Better than expected	28%	24%	22%	21%	29%	26%	13%	20%	27%	23%	21%	18%	16%	20%
In line with expectations	47%	47%	51%	40%	47%	57%	59%	50%	44%	39%	48%	45%	56%	52%
Worse than expected	25%	29%	27%	39%	23%	28%	28%	29%	36%	31%	36%	28%	28%	28%
Net % (Better - Worse)	3%	-5%	-5%	-18%	6%	8%	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-8%

2015 Full-Year Outlook: Down 14%

- ✓ The full year dealer average sales growth forecast improved slightly in September to down 14% for the year compared to down 15% the previous month. A net 35% of dealers are projecting a sales decline for the year, in line with the forecast in August.
- ✓ Initial 2016 average dealer sales forecasts are for a 6% decline, an improvement from the 9% estimate last month.
- ✓ Kubota dealers once again reported the most positive outlook calling for a 13% increase in sales. Case IH dealers are calling for the largest drop in sales, forecasting a 26% 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
AGCO	-9%	0%	-10%	-11%	-12%	-5%	-3%	-9%	-15%	-4%	-15%
John Deere	-9%	-9%	-11%	-18%	-8%	-15%	-18%	-14%	-14%	-14%	-11%
New Holland	-10%	-3%	-6%	-11%	-10%	-4%	-9%	-8%	-10%	-17%	-11%
Case IH	-16%	-11%	-14%	-17%	-17%	-14%	-20%	-24%	-22%	-20%	-26%
Kubota	-14%	-6%	-11%	-13%	-17%	-10%	-14%	1%	-3%	-1%	13%
Shortlines/Other	-16%	-9%	-7%	-10%	-13%	-10%	-7%	-8%	-11%	-16%	-9%
Overall	-10%	-8%	-11%	-15%	-10%	-12%	-15%	-15%	-16%	-15%	-14%

Dealer Optimism Remains Negative

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 23% of dealers being less optimistic (13% more optimistic, 51% same and 36% less optimistic) in September compared to 32% in August. This is the 18th consecutive month of deterioration in optimism.

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
More Optimistic	12%	16%	8%	9%	12%	12%	9%	14%	14%	12%	13%	14%	11%	13%
Same	50%	46%	48%	38%	39%	52%	50%	42%	47%	48%	58%	52%	45%	51%
Less Optimistic	38%	38%	44%	53%	49%	36%	41%	43%	40%	40%	30%	35%	43%	36%
Net % Dealer Optimism	-26%	-22%	-36%	-44%	-37%	-25%	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-23%

COMMENTARY

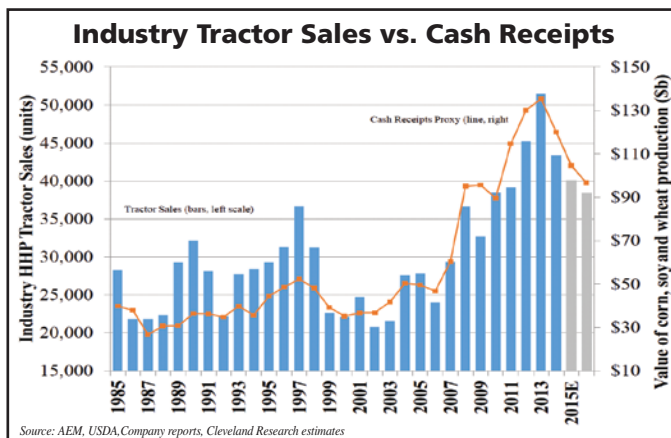
USDA Outlook for Cash Receipts

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 October crop report remained negative for future industry tractor sales, and was a slight deterioration from the September report. The USDA raised its season average corn price

forecast by 1% to reflect lower planted acres. Soybean price forecasts held steady.

Our cash receipts proxy now forecasts receipts down 7% year-over-year in 2015-16 compared to the September forecast of down 6% and the 2014-15 decline of 13%.



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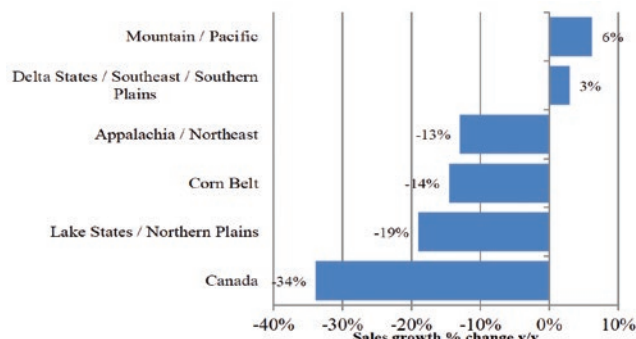
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NEW EQUIPMENT TRENDS

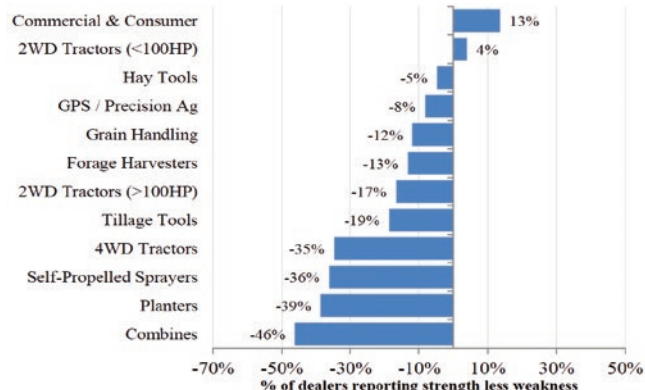
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends remain weak across all regions, but relative changes have been mixed. Canada, the Lake States/Northern Plains and the Corn Belt are the weakest regions. The Mountain/Pacific region remains the strongest comparatively and has moved into positive territory.

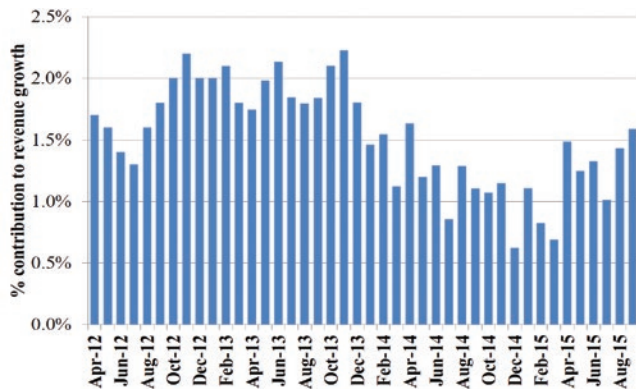
Equipment Category Sales Trends



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 prior month trend, with the exception of grain handling and hay tools.

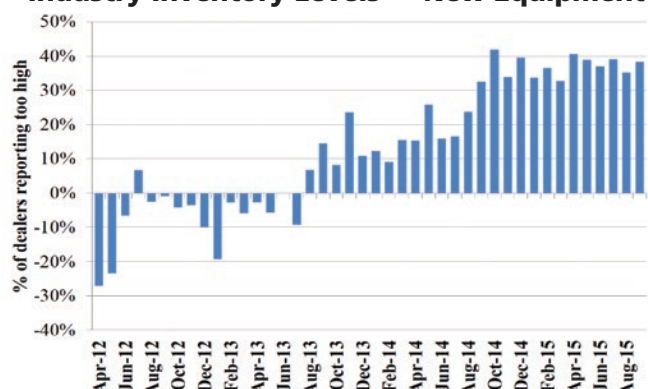
Price Contribution to Sales



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%. Increases at other OEMs are set to occur on Nov. 1 with expectations of equally moderate pricing realization.

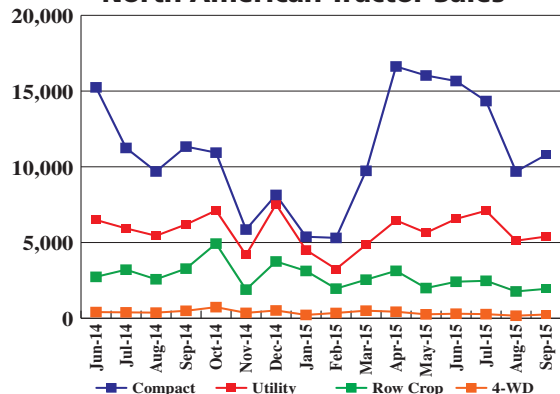
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 38% of dealers reported new equipment inventories are "too high" vs. 35% the previous month. This marks 13 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

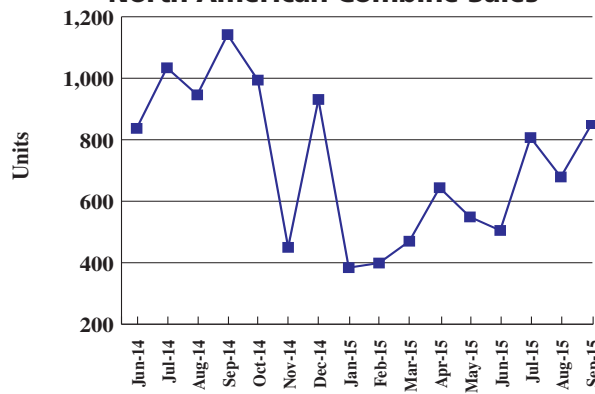
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were down 14% year-over-year in September, with row-crop and 4WD tractors down 41% and 49% respectively. Utility tractors saw a 13% year-over-year drop in sales and <40 horsepower tractor sales were down 5%.

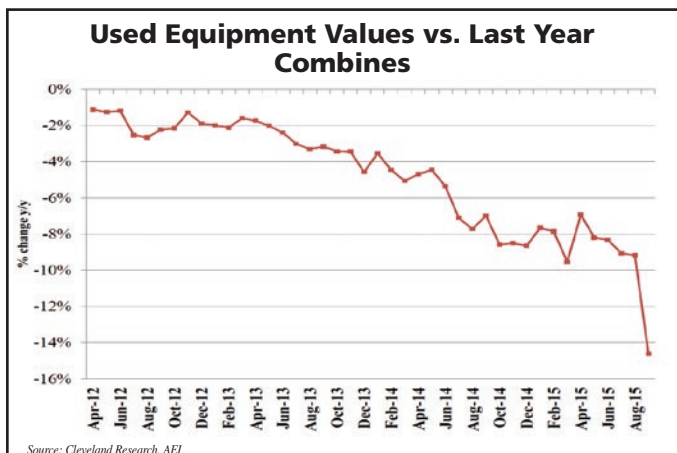
North American Combine Sales



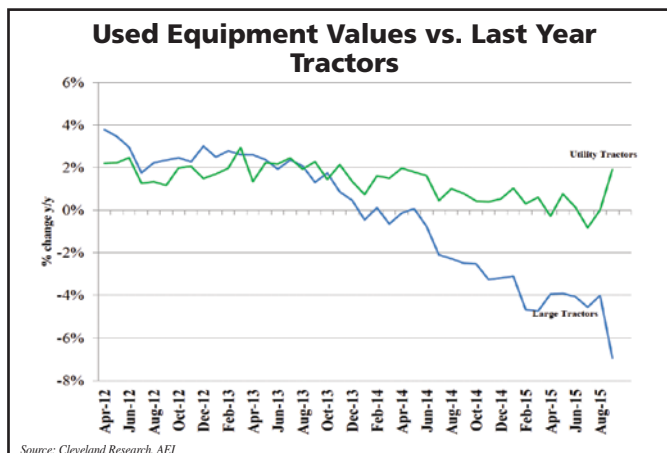
Source: Cleveland Research, AEI

North American combine sales came in at 848 units in September compared to 1,142 units in September 2014. On a year-over-year basis, combine sales were down 26%.

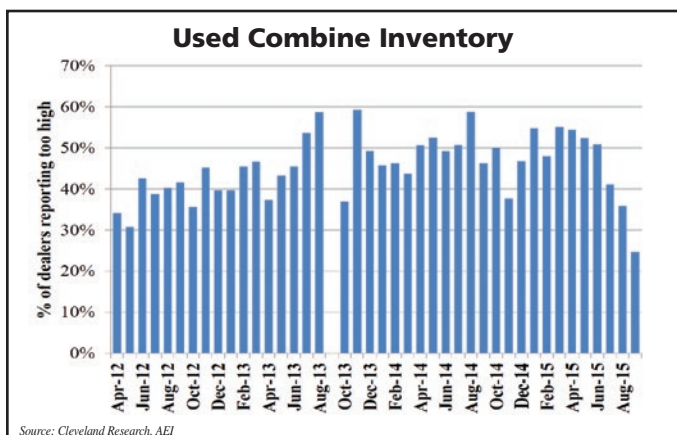
USED EQUIPMENT TRENDS



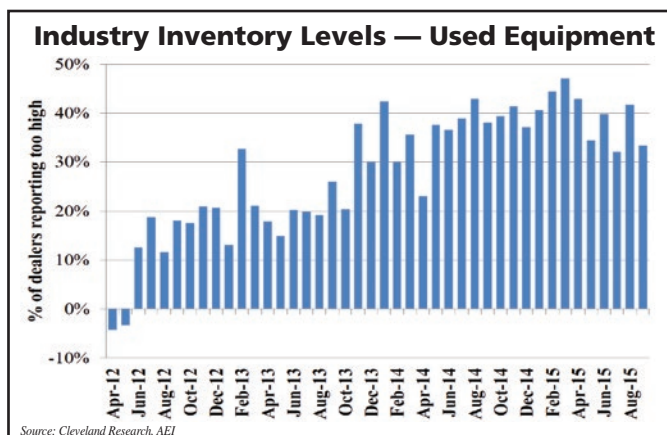
Used combine prices showed a further deterioration, declining 15% year-over-year in September vs. down 9% the month prior.



Large tractors were reported down 7% year-over-year in September, a step down vs. August's decline of 4%. Both compact and utility tractors saw a 2% year-over-year increase in September.

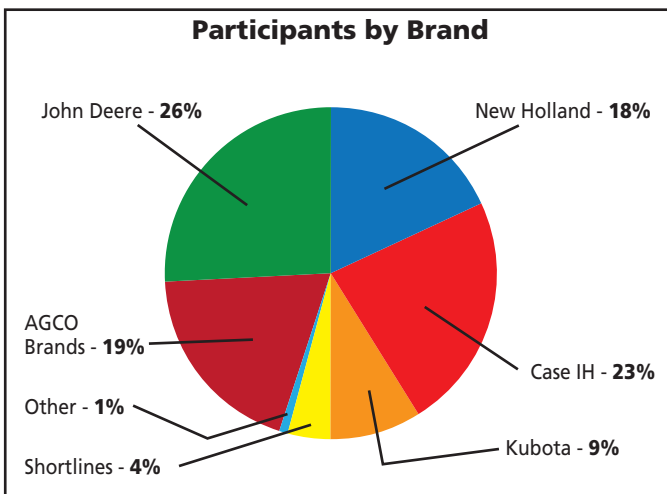
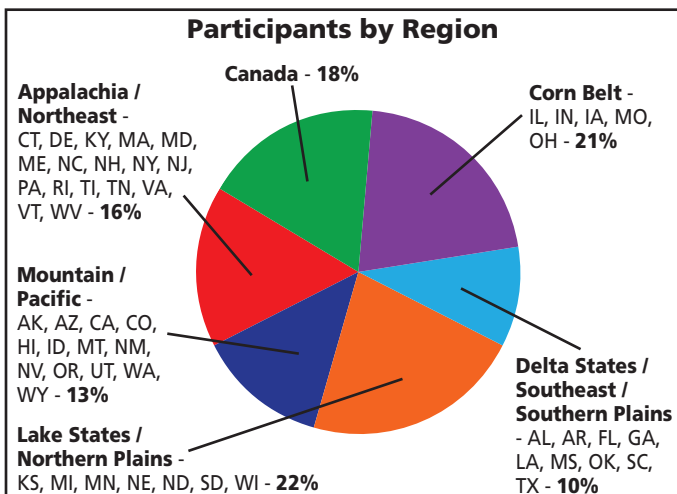


Used combine inventory remains too high with a net 25% of dealers reporting inventories above where they would like them. However, this was the most favorable level seen in 2015 and, anecdotally, continues to be a key focus area for dealers.



A net 33% of dealers reported used equipment inventory as "too high" in September vs. 42% in the prior month.

OCTOBER 2015 SURVEY RESPONDENTS



The October survey had 132 respondents representing combined annual revenues of roughly \$5.7 billion, covering a broad cross section of geographies and brands.