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Ag Equipment Intelligence's

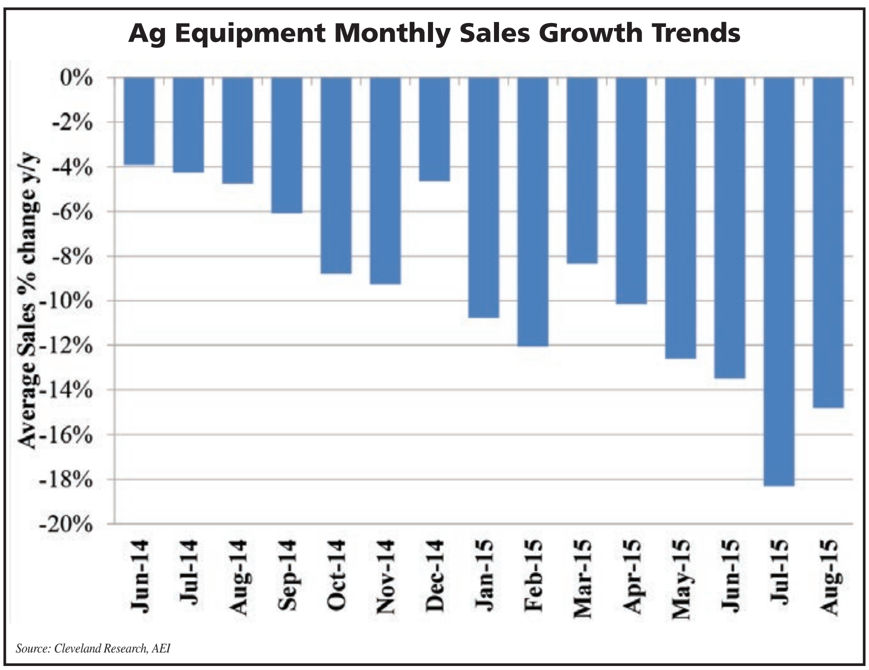
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 15% in August

- ✔ North American ag equipment dealers reported their sales, on average, were down 15% year-over-year in August, an improvement from the 18% average decline in the previous month.
- ✔ A net 35% of dealers say their new equipment inventories are "too high," an improvement from a net 39% of dealers in July.
- ✔ Used equipment inventories worsened in August with a net 42% of dealers reporting inventory was "too high" vs. 32% in the prior month.
- ✔ Dealers say they saw a 1-1.5% uptick in new equipment price realization in the last 5 months due to Tier 4 sales and OEM price push.



Results vs. Expectations

	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	Aug-15
Better than expected	25%	26%	28%	24%	22%	21%	29%	26%	13%	20%	27%	23%	21%	18%	16%
In line with expectations	53%	49%	47%	47%	51%	40%	47%	57%	59%	50%	44%	39%	48%	45%	56%
Worse than expected	23%	26%	25%	29%	27%	39%	23%	18%	28%	28%	29%	36%	31%	36%	28%
Net % (Better - Worse)	2%	0%	3%	–5%	–5%	–18%	6%	8%	–14%	–8%	–2%	–13%	–10%	–18%	–12%

2015 Full-Year Outlook: Down 15%

- ✔ The full year dealer average sales growth forecast decreased to down 15% for the year compared to down 16% the previous month. A net 35% of dealers are projecting a sales decline for the year vs. 46% in July.
- ✔ Kubota dealers once again reported the most positive outlook calling for a 1% decrease in sales. Case IH dealers are calling for the largest drop in sales, forecasting a 20% 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
AGCO	–9%	0%	–10%	–11%	–12%	–5%	–3%	–9%	–15%	–4%
John Deere	–9%	–9%	–11%	–18%	–8%	–15%	–18%	–14%	–14%	–14%
New Holland	–10%	–3%	–6%	–11%	–10%	–4%	–9%	–8%	–10%	–17%
Case IH	–16%	–11%	–14%	–17%	–17%	–14%	–20%	–24%	–22%	–20%
Kubota	–14%	–6%	–11%	–13%	–17%	–10%	–14%	1%	–3%	–1%
Shortlines/Other	–16%	–9%	–7%	–10%	–13%	–10%	–7%	–8%	–11%	–16%
Overall	**–10%**	**–8%**	**–11%**	**–15%**	**–10%**	**–12%**	**–15%**	**–15%**	**–16%**	**–15%**

Dealer Optimism Drops Again

Our Deal Optimism Index, which measures sentiment among dealers compared to the prior month, dropped to a net 32% of dealers being less optimistic (11% more optimistic, 45% same and 43% less optimistic) in August compared to 21% in July.

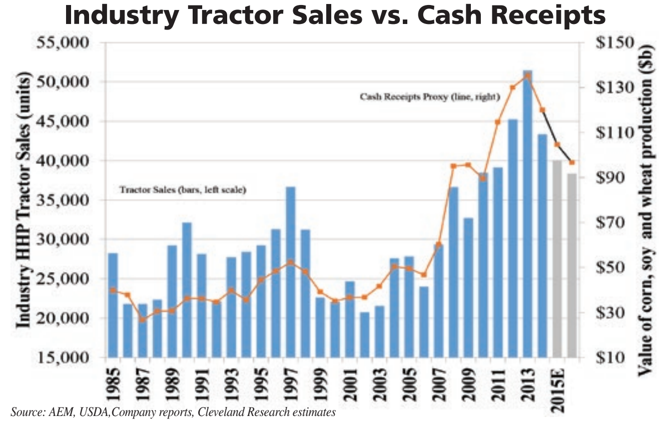
Optimism/Sentiment vs. Last Month

	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	Aug-15
More Optimistic	25%	23%	13%	12%	16%	8%	9%	12%	12%	9%	14%	14%	12%	13%	14%	11%
Same	45%	42%	45%	50%	46%	48%	38%	39%	52%	50%	42%	47%	48%	58%	52%	45%
Less Optimistic	30%	35%	42%	38%	38%	44%	53%	49%	36%	41%	43%	40%	40%	30%	35%	43%
Net % Dealer Optimism	–5%	–11%	–28%	–26%	–22%	–36%	–44%	–37%	–25%	–31%	–29%	–26%	–26%	–18%	–21%	–32%

COMMENTARY

USDA Outlook for Cash Receipts

Industry Tractor Sales vs. Cash Receipts



Source: AEM, USDA,Company reports, Cleveland Research estimates

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 September crop report remained negative for future industry tractor sales, but was better than the August report. The USDA raised its season average corn price forecast by 3% to reflect lower yield expectations. Soybean price forecasts held steady. Our cash receipts proxy now forecasts receipts down 7% year-over-year in 2015-16 compared to the August forecast of down 8% and the 2014-15 decline of 13%.

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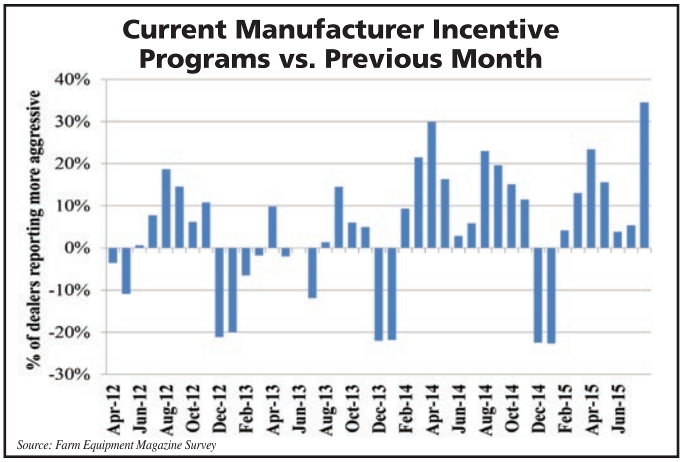
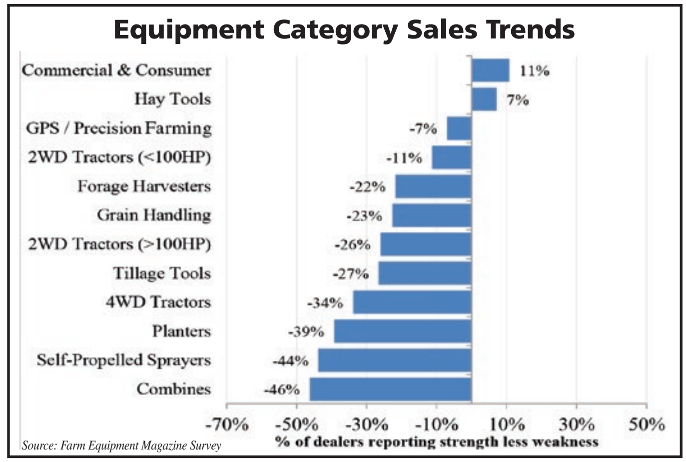
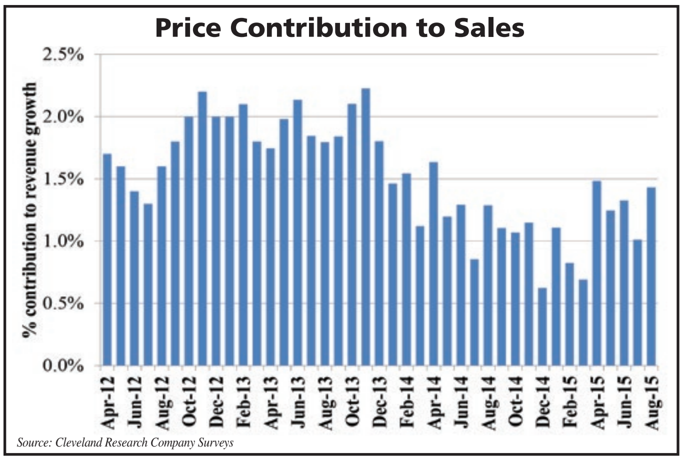
NEW EQUIPMENT TRENDS



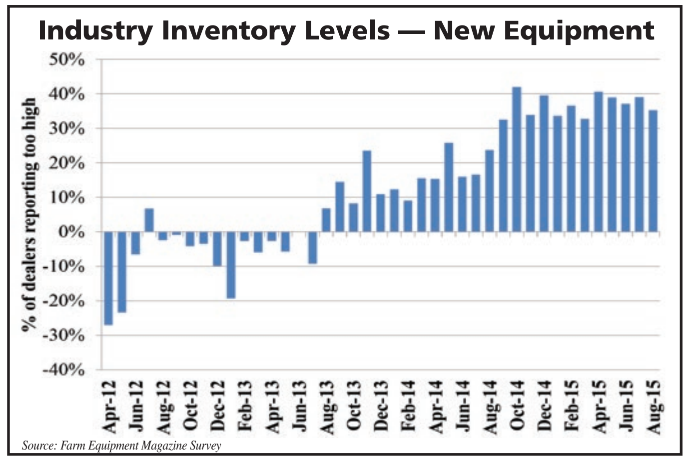
A net 35% of dealers report OEM incentive programs were more aggressive in August vs. a net 5% of dealers the previous month. This is the most significant uptick in several years.



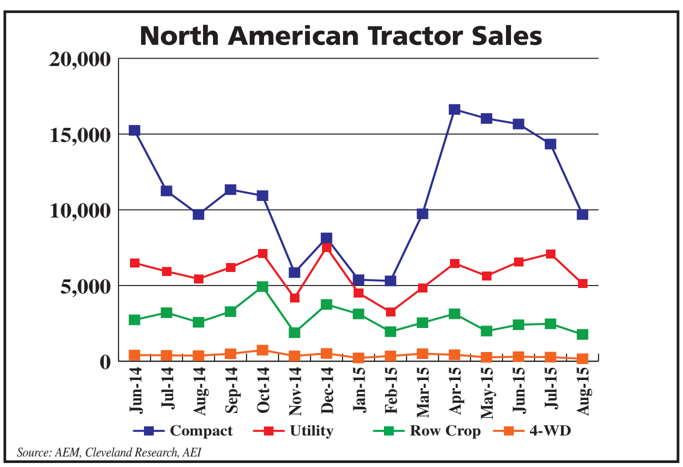
Commercial and consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). Dealers reported GPS/precision farming equipment showing strength in August vs. weakness in the last several months.



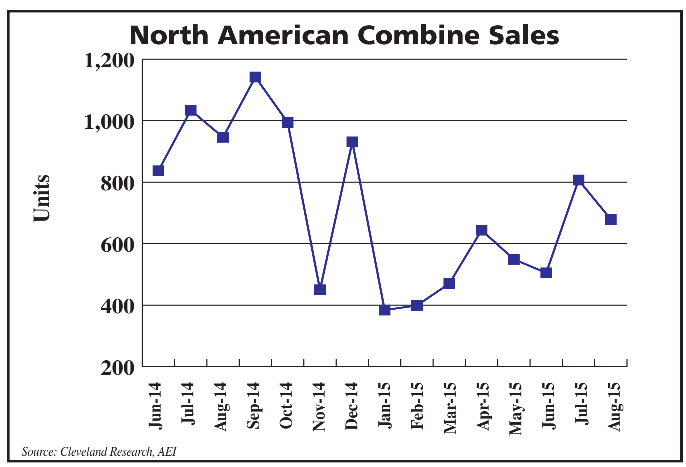
Dealers report several OEMs pushed through small price increases in recent months, which pushed up the average new equipment price realization across the dealer sample to 1-1.5% over the last 5 months. Tier 4 Final emissions related price increases are also noted as driving higher pricing recently.



A net 35% of dealers reported new equipment inventories are "too high" vs. 39% the previous month. This marks 12 months of new inventory levels reported as "too high" by more than a net 30% of dealers.



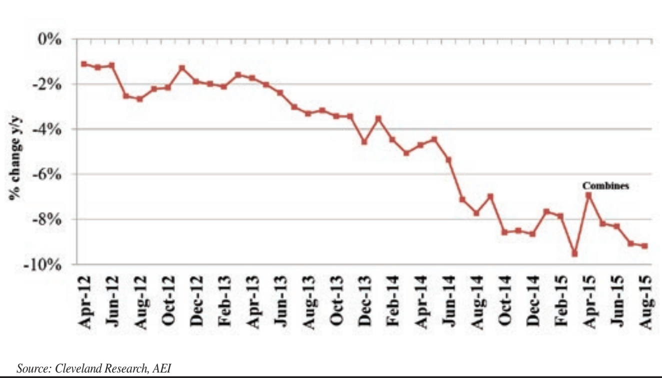
Total North American tractor sales were down 7% year-over-year in August, with row-crop and 4WD tractors down 31% and 55% respectively. Utility tractors saw a 6% year-over-year drop in sales in August and <40 horsepower tractors were flat.



North American combine sales came in at 679 units in August compared to 807 units in July. On a year-over-year basis, combine sales were down 28%.

USED EQUIPMENT TRENDS

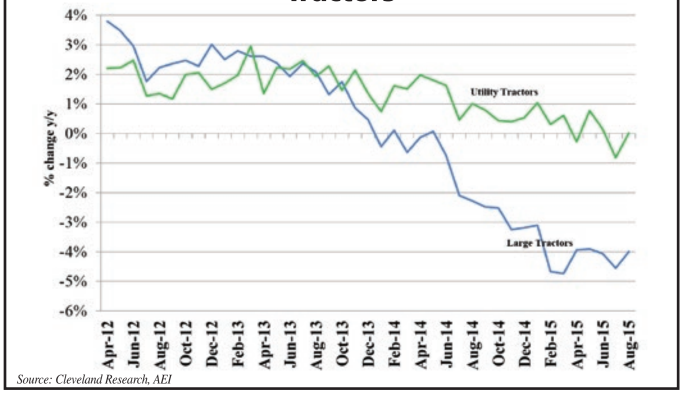
Used Equipment Values vs. Last Year
Combines



Source: Cleveland Research, AEI

Used combine prices remain weak at down 9% on average, inline with July's results.

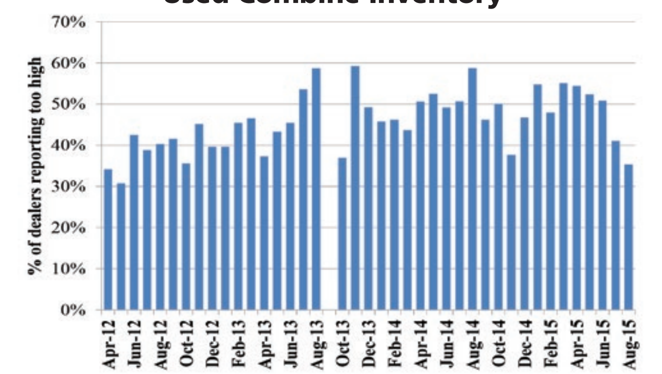
Used Equipment Values vs. Last Year
Tractors



Source: Cleveland Research, AEI

Used large tractor pricing is reported down 4% year-over-year on average, roughly inline with July results. Utility tractors returned to flat pricing after a 1 month drop into negative territory.

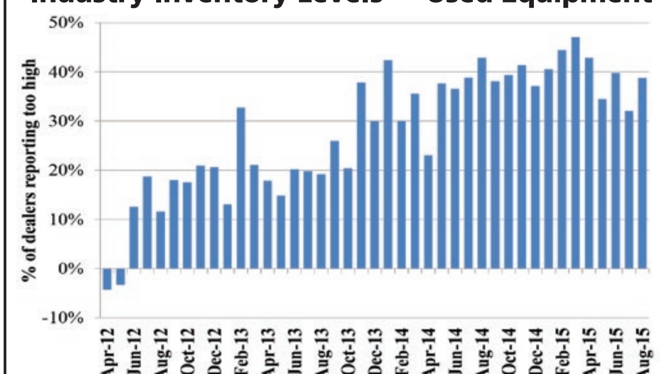
Used Combine Inventory



Source: Cleveland Research, AEI

Used combine inventory remains "too high" with a net 36% 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.

Industry Inventory Levels — Used Equipment

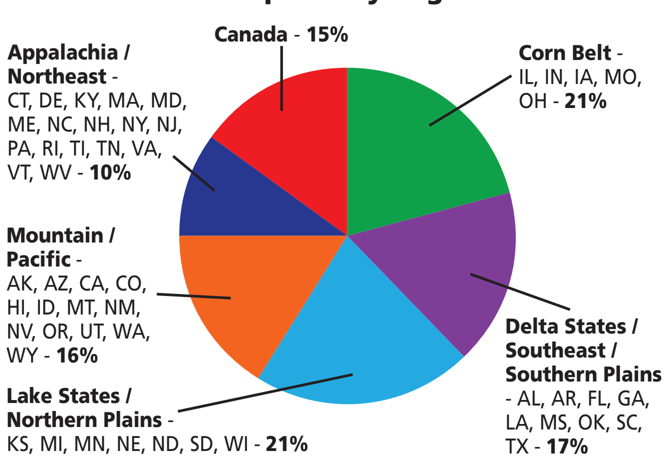


Source: Cleveland Research, AEI

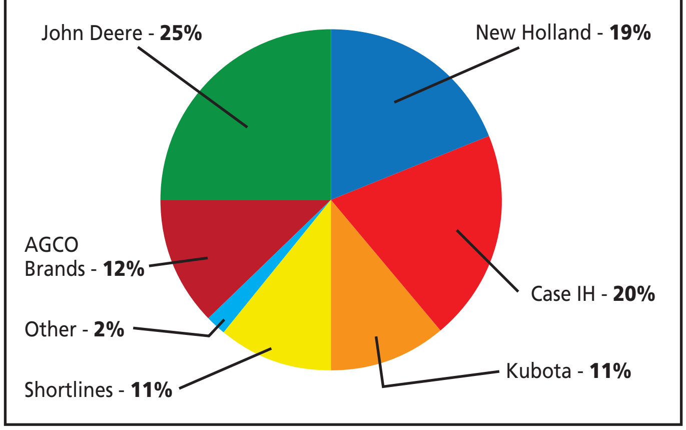
Used equipment inventories were worse in August with 42% of dealers reporting inventory was "too high" vs. 32% the month prior.

SEPTEMBER 2015 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The September survey had 104 respondents representing combined annual revenues of roughly $4.7 billion, covering a broad cross section of geographies and brands.