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Ag Equipment Intelligence's

Dealer Sentiment & Business Conditions Update

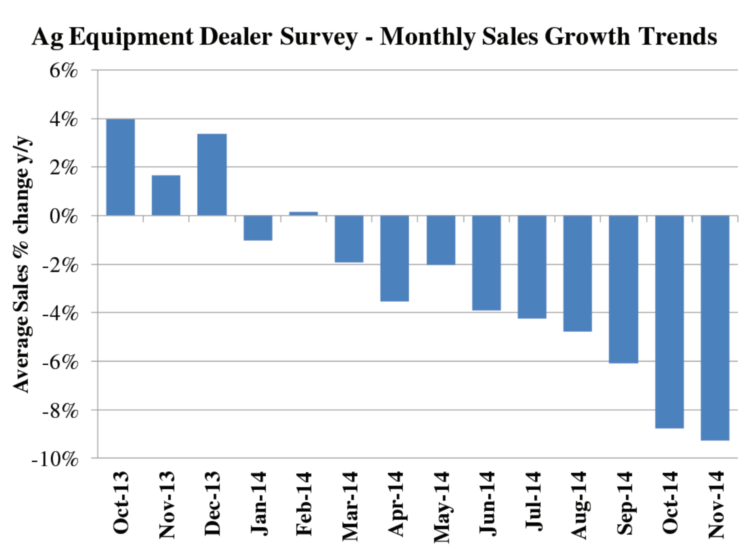
From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Down 9% in November

- ✔ Ag equipment dealers reported sales were down 9% year-over-year on average in November.
- ✔ AGCO dealers once again reported the strongest sales growth of up 5% year-over year on average, while Case IH dealers reported the largest declines at down 14%.
- ✔ A net 18% of dealers reported sales were below plan this month, slightly worse than the net 5% missing plan over the past 2 months.
- ✔ A net 34% of dealers categorize their new equipment inventory as "too high" (42% too high; 50% about right; 8% too low), down from the net 42% last month.
- ✔ A net 41% of dealers reported used equipment inventories were "too high" in November, compared to a net 46% the previous month.
- ✔ Incoming orders declined 16% year-over-year on average in November, which compares to the 15% average declines in October.

Ag Equipment Monthly Sales Growth Trends



Source: Cleveland Research, AEI

Results vs. Expectations

	Jul-13	Aug-13	Sep-13	Oct-13	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
Better than expected	38%	33%	27%	32%	24%	39%	25%	20%	21%	21%	29%	25%	26%	28%	24%	22%	21%
In line with expectations	48%	47%	54%	51%	56%	45%	51%	55%	54%	54%	52%	53%	49%	47%	47%	51%	30%
Worse than expected	14%	20%	19%	17%	20%	16%	24%	25%	26%	25%	19%	23%	26%	25%	29%	27%	39%
Net % (Better - Worse)	23%	13%	8%	16%	4%	23%	1%	-4%	-5%	-4%	10%	2%	0%	3%	-5%	-5%	-18%

2015 Dealer Outlook Holds Steady

- ✔ For 2015, dealers are now expecting sales to decline 10% year-over-year on average, which is similar to the down 11% forecast last month.
- ✔ AGCO and John Deere dealers were the most optimistic expecting sales declines of 9%, while Case IH and Shortline only dealers are forecasting sales declines of 16%.

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
	2014 Outlook									2015 Outlook		
Overall	-2%	-3%	-4%	-4%	-6%	-6%	-8%	-4%	-9%	-9%	-11%	-10%
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**
AGCO	-1%	2%	0%	0%	-1%	2%	-4%	2%	10%	6%	0%	-9%
John Deere	-1%	-3%	-3%	-2%	-6%	-6%	-6%	-4%	-10%	-12%	-14%	-9%
New Holland	0%	-1%	-6%	-9%	-3%	-3%	-6%	1%	0%	9%	-8%	-10%
Case IH	-5%	-5%	-6%	-9%	-11%	-9%	-14%	-7%	-16%	-12%	-11%	-16%
Kubota	-1%	-2%	-2%	-10%	-3%	-4%	-7%	-1%	3%	7%	-6%	-14%
Shortlines	-3%	-4%	1%	-2%	-8%	-2%	-5%	1%	-9%	3%	-12%	-16%
Other	3%	7%	NA	NA	-4%	3%	2%	NA	19%	0%	3%	NA

Dealer Optimism Drops Again

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, took another big drop in November. A net 44% of dealers reported a less optimistic outlook for the year (9% more optimistic, 38% the same, 53% less optimistic). This compares to a net 36% of dealers who reported a less optimistic outlook in September.

Optimism/Sentiment vs. Last Month

	Aug-13	Sep-13	Oct-13	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
More Optimistic	19%	14%	15%	14%	9%	12%	24%	26%	24%	25%	23%	13%	12%	16%	8%	9%
Same	50%	62%	60%	45%	52%	52%	50%	51%	44%	45%	42%	45%	50%	46%	48%	38%
Less Optimistic	31%	23%	25%	41%	39%	36%	26%	23%	32%	30%	35%	42%	38%	38%	44%	53%
Net % Dealer Optimism	-12%	-9%	-11%	-27%	-30%	-23%	-1%	3%	-9%	-5%	-11%	-28%	-26%	-22%	-36%	-44%

COMMENTARY

USDA Forecast Holds at 15% Decline for 2014-15 Cash Receipts Outlook

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

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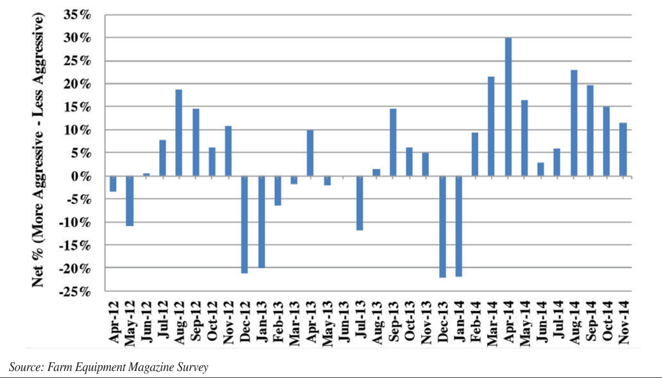
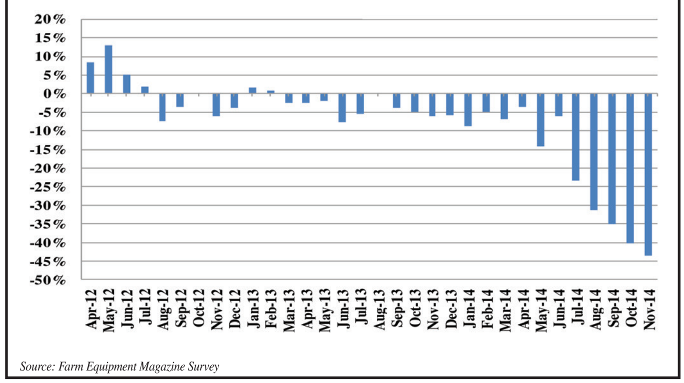
NEW EQUIPMENT TRENDS

Current Manufacturer Incentive Programs vs. Last Month



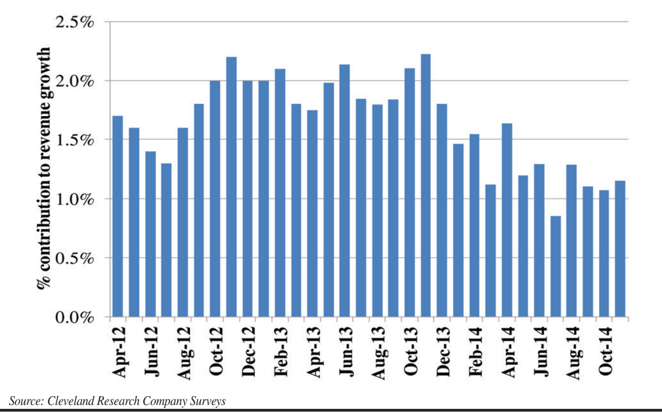
A net 11% of dealers report manufacturers were more aggressive with incentives in November (28% more aggressive; 55% the same; 17% less aggressive), compared to the net 15% of dealers reporting more aggressive incentives last month.

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



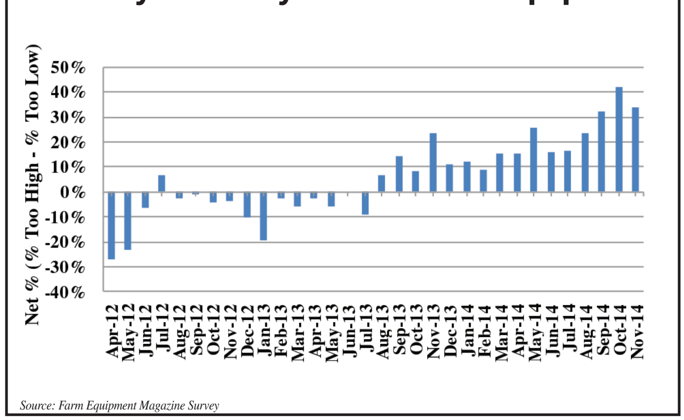
A net 44% of dealers report factory production was down in November compared to October vs. a net 40% of dealers reporting lower production volume last month.

Price Contribution to Sales



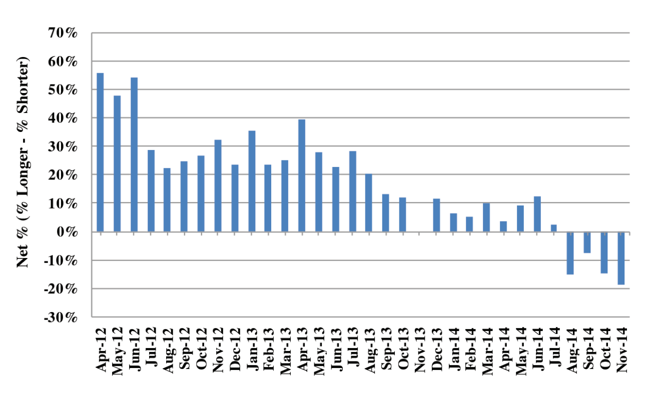
Dealers report price contributed roughly 1.1% to total November revenue growth, similar to last month. Tier 4 Final price increases are expected to be 5-10% on average, although not impacting all lines of equipment.

Industry Inventory Levels — New Equipment



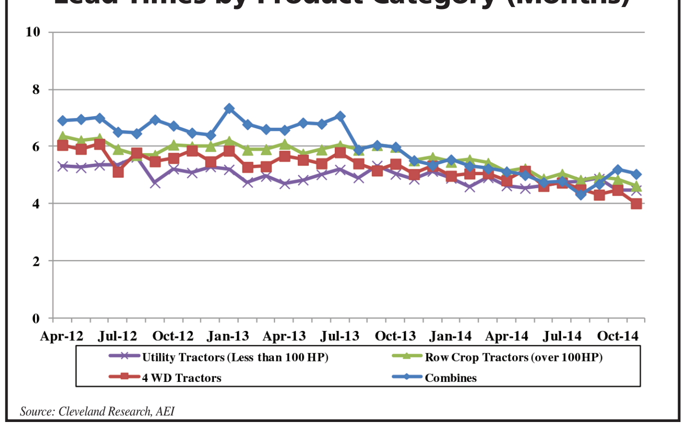
A net 34% of dealers categorize their new equipment inventory as "too high" (42% too high; 51% the same; 8% too low), down from the net 42% last month.

Lead Times vs. Prior Month



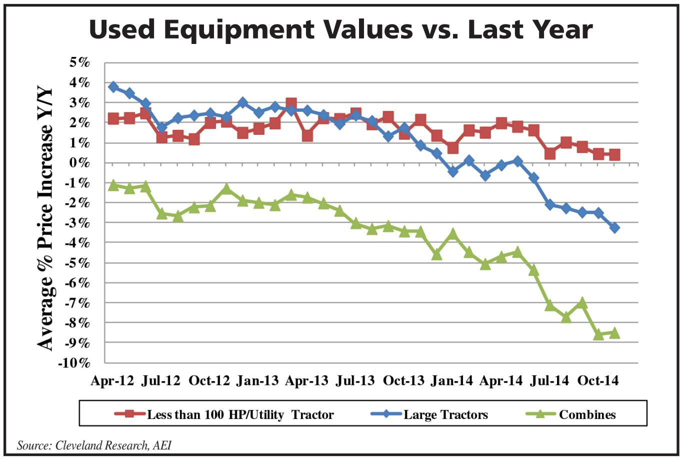
Overall, a net 19% of dealers report shorter factory lead-times compared to last month (15% longer, 51% the same; 34% shorter).

Lead Times by Product Category (Months)

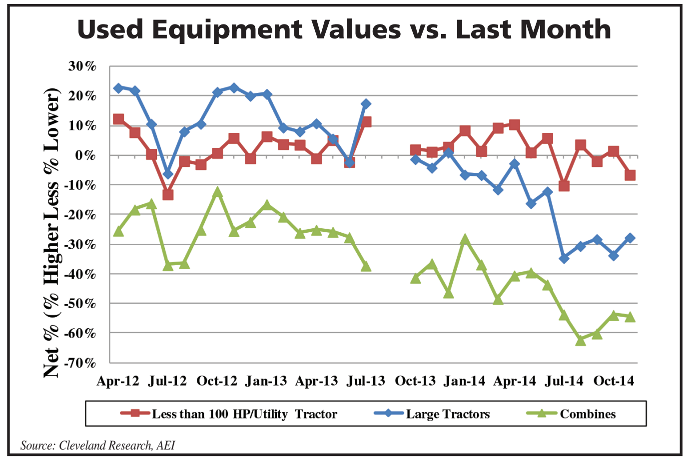


Combine, 4WD and row-crop tractor lead times were all slightly shorter on average vs. last month, while utility tractor lead times were steady month-over-month.

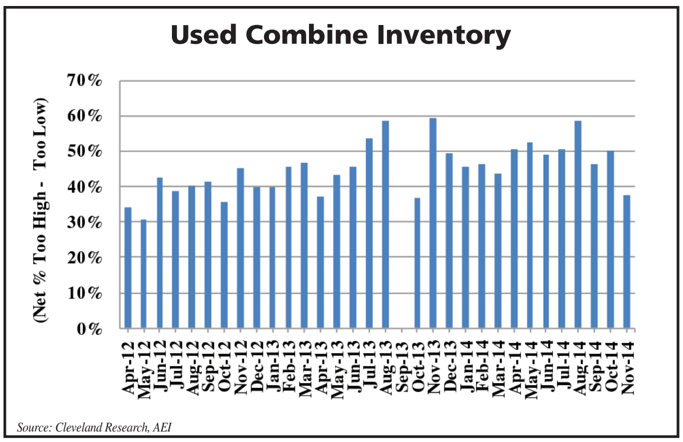
USED EQUIPMENT TRENDS



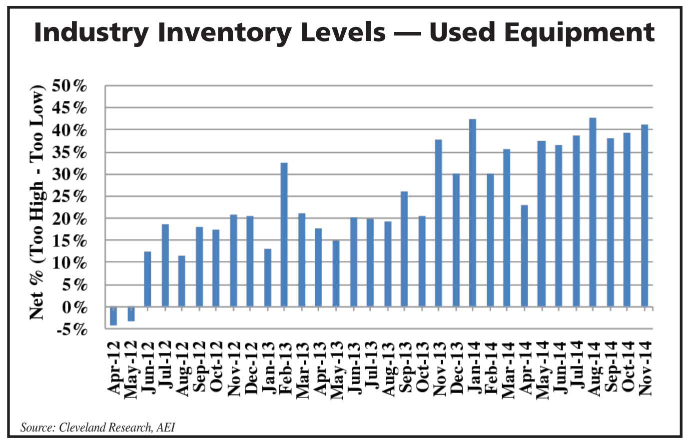
Used combine values are reported at down 9% year-over-year, similar to last month while large tractor values are reported at down 3% year-over-year and small tractor values are relatively flat year-over-year.



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

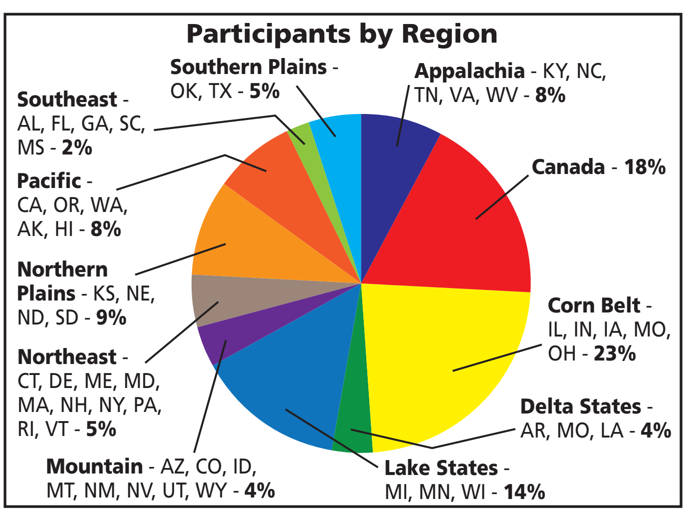


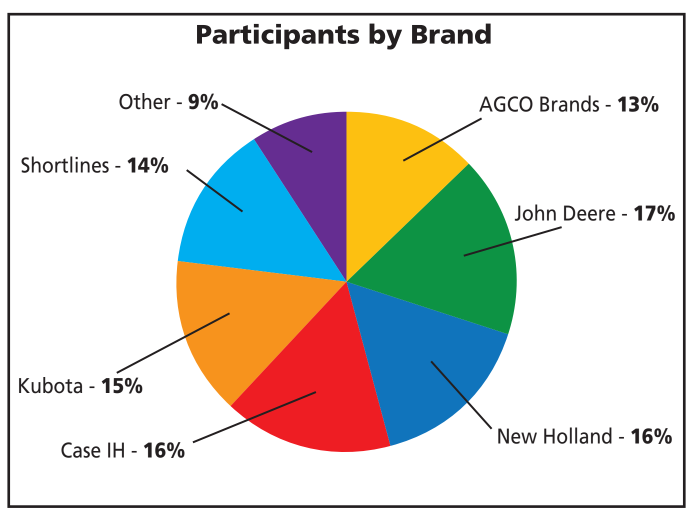
A net 38% of dealers reported used combine inventories were "too high," below the net 50% last month.



A net 42% of dealers reported used equipment inventory as "too high" in November (51% too high; 40% about right; 9% too low), slightly above the net 39% last month

NOVEMBER 2014 SURVEY RESPONDENTS





The November survey had 131 respondents representing combined annual revenues of roughly $5.4 billion, covering a broad cross section of geographies and brands