



Spring 2015 Market Update

Farm Industry
Market Trends
Heavy Equipment,
Land & Cash Rents



Selling Land & the Equipment to Farm It Since 1960



Market Valuation and Trend Line Observations

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About Steffes Group

Steffes Group is a nationally recognized leader in the auction industry. We perform On-Site & Online Auctions, Large Agtron Events, Real Estate Auctions, Farm Asset Management, and Equipment Appraisals.



Overall Market Trend

Dear Reader,

Welcome to the Spring 2015 Market Update provided by the Steffes Group.

The Spring of 2015 saw a change in pricing, a change in attitude and the realization that a correction is here and we must be ready for the results.

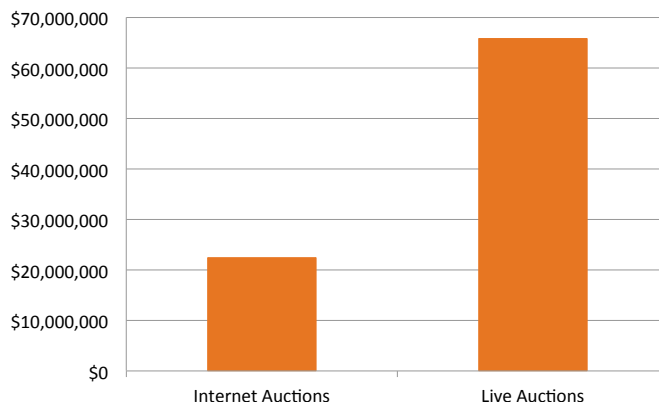
Market activity on the machinery side is up with many using this triggering event of low commodity prices as incentive to exit and retire. Those farmers with high net worth and strong balance sheets, but no succession plan in place are making the decision to exit and take advantage of the high rent demand on their farmlands. This will continue as there has been no incentive to do so for several years and the age of the average farmer is quite high. Look for more farmer retirement activity to continue and look for those machinery items to provide stiff competition to dealer inventories that have not been there for the last several years. Look for aggressive operators geared to larger volume and smaller margins to face a change in their operations. They are not sustainable in the current market.

We have seen a stark and significant difference in pricing and demand for farmer-owned equipment at retirement auctions, especially compared to pricing at dealer only auctions or dealer items at our consignments and online events. The spread has never been wider. We have also seen an increase in prices for older equipment, especially tractors with low hours or use as utility; for the money is more important than age. This will continue on older items as long as the price of new continues to climb. We especially see this on items priced lower than \$50,000.

Finishing our Spring run of auctions, it seems the market is still looking for bottoms on late model used equipment. What happens through the Summer with commodity prices first, then crop production second will define the trend. We will have to wait and see. The downside risk is greater than the upside potential simply from a supply side.

On the real estate market, Spring prices did not reflect much weakness. Demand, particularly from investors who have been consistently outbid by operators during this run up are finally getting acres bought. They are counting on historical high rents and are willing to be comfortable with small yields of less than 4% and sometimes as low as 2% for the right to own the land. We don't look for land values to fluctuate in the coming months but rather a dwindling of sellers who are not willing to part with such a valuable investment. The single greatest risk on the land values side will be a rise in interest rates which will further reduce returns and make other investments more attractive. It will also be difficult to sustain current rental rates with today's

2010 Sales: Internet vs. Live Auctions



2014 Sales: Internet vs. Live Auctions



commodity prices, but that effect will be more long term. There are still many cash buyers, however, they are picky and very conscious of land quality.

Smart investors and well-financed operators will have more opportunity and less competition in the near term than in the previous 5 years. There will be more change and attrition which means young farmers willing to handle and control risk will have opportunity as well.

Kind Regards,

Scott Steffes
President
Steffes Group, Inc.



Moving into 2015: A Company Update

Selling Land and the Equipment to Farm It in 9 states; selling to 8,000 Registered Buyers in 28 states, 6 Canadian Provinces, as well as 4 Foreign Countries in 2014.

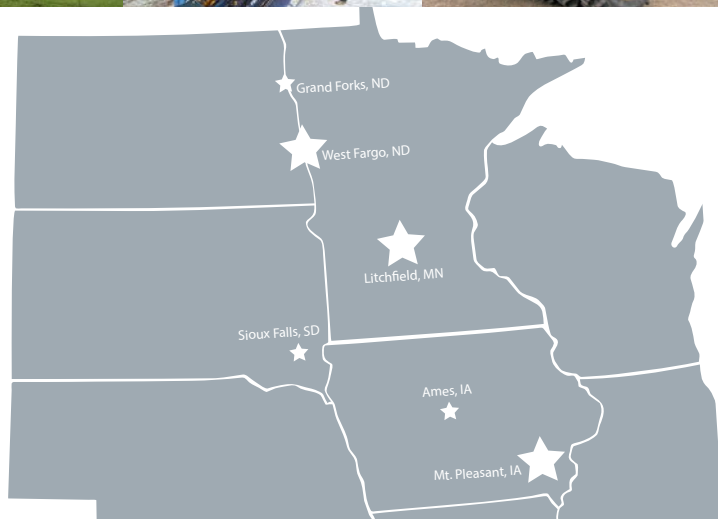


2014 Completed Auctions - In just 12 months, our team was involved in 158 Auction Events.



Additional Locations

Just over the past year we have established locations in Ames, IA; Sioux Falls, SD; and Grand Forks, ND to further assist the growing need of auction services & resources.







Tractors: 4WD/Track/MFWD

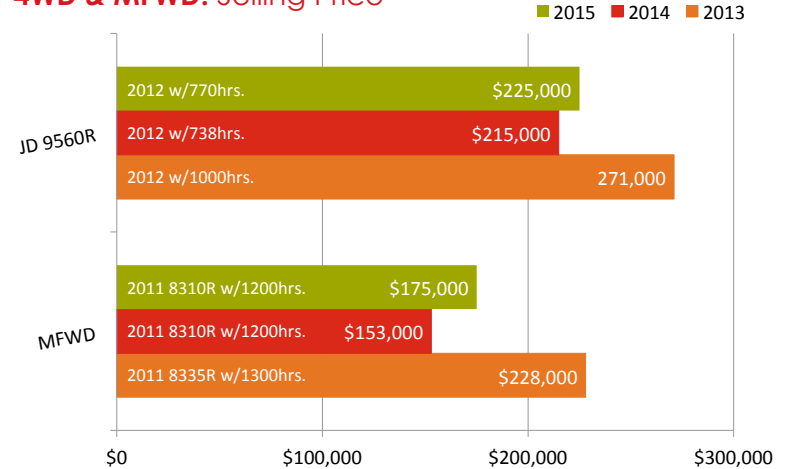
Overall, the tractor market, especially the common horsepower models, are always the least affected by swings in market variables and we have seen that hold true the last 18 months. They are not, however, immune to price reduction.

First, the large horsepower 4WD units are the most affected by seasonal demand of all the tractor models. Late Fall and early Spring is where we see most demand, middle of Summer and early Fall we historically see steep discounts to units sold in those markets. Farmers would do well and see a significant savings (10% or more) purchasing off season. Competition for units is typically wholesalers or dealers contending with farmers as they build inventory for the season of demand.

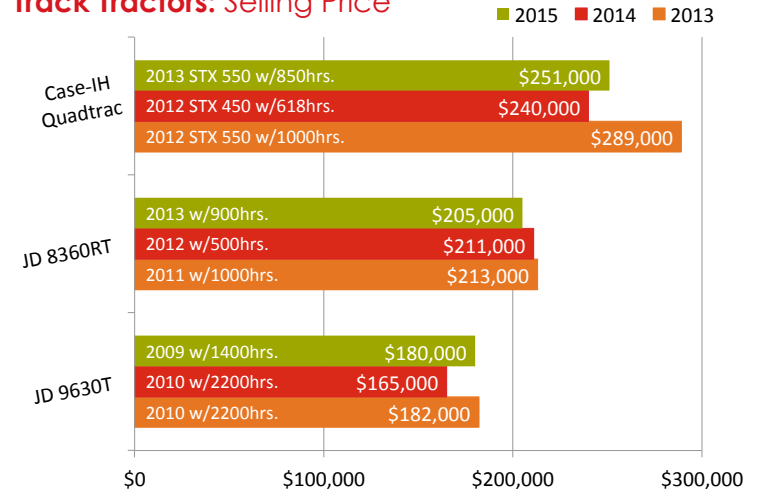
The most "in demand" product in today's used tractor market is the large horsepower Case-IH Quadtrac, with lack of supply in auction markets it's not keeping up with demand. Their "wheeled" counterparts also do very well. The large "wheeled" John Deere tractors have many potential buyers as do their track models, but the track models don't hold the price separation they demand when they are sold new. The Caterpillar lineup has been steady but with fewer buyers, but again we haven't seen the market reward the sellers with the same price separations they must pay when they purchase them new. New Holland and Versatile fall in line also but with fewer, although very loyal, buyers.

The MFWD models show a more consistent overall demand and a more consistent and predictable market value. The market discounts tractors that don't have all the extra features or latest options when supplies are high. Farmers who purchase new units with fewer options pay dearly in today's used market. Their perceived savings disappear on resale and demand. Additionally, tire size and the tractor's geographic location have a great deal to do with demand. It's very difficult to move a large tire tractor setup to "pull" to an area that expects the unit to be used for "row crop" purposes.

4WD & MFWD: Selling Price



Track Tractors: Selling Price



Tractors: 2009 & Newer

Year	2013		2014		H12015	
	# of pc.	ASP	# of pc.	ASP	# of pc.	ASP
4WD	31	\$208,100	37	\$173,100	8	\$173,625
Track	14	\$198,500	23	\$205,417	9	\$199,200
MFWD	30	\$140,820	79	\$115,220	11	\$117,100

*ASP = Average Selling Price # of pc. = Number of Pieces





Combines

We currently have an unprecedented supply of used combines in the marketplace. Until demand catches up, we will see continued discounting or inventories stagnating. Historically, combines have always been the most volatile and unpredictable market. They seem to be always out of season and/or obsolete, with the high cost of maintenance pricing on these units is tricky to predict. Two combines exactly the same, side-by-side, can have \$20-\$30,000 price swings because of maintenance and care. In addition, the crop they are used for has a huge impact. One unit might only have worked with small grains where the volume of material or dirt through it doesn't compare to a heavy corn and bean machine.

Currently the markets seem to be at or near bottoms. The significant price reductions simply don't reflect the utility of the machines or the useful life remaining, especially on the late model units of any color. It's hard to believe that a near 50% price savings compared to new on one and two year old machines will last long. This represents a huge savings to operators. We believe these late model combines trading today will trade at or near similar prices two years from now.

The combine market through harvest will be greatly influenced by weather. If crops are short because of drought or excessive moisture, look for operators to get by or perhaps strike a short term rent arrangement with dealers anxious to do anything to generate revenue from idle inventory. On the other hand, a commodity rally and strong prices with a good crop in the field will highly motivate operators to get the crop in the bin and off the field. We will watch and see which direction it takes.

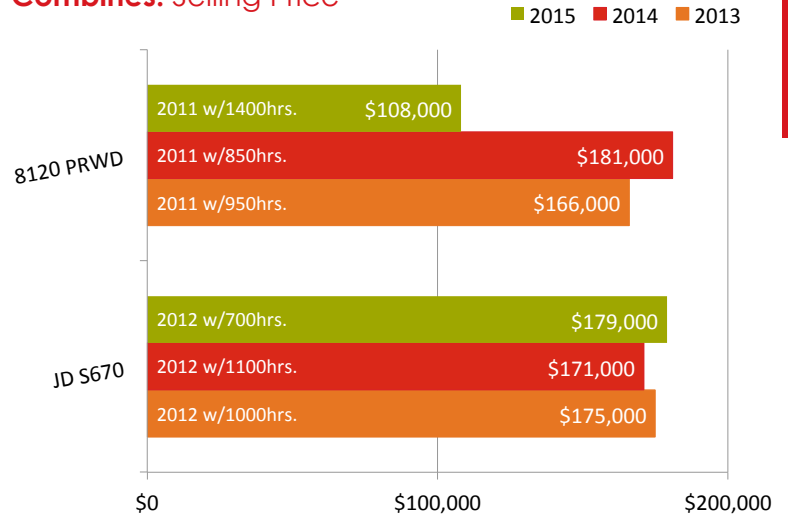
Heads

The late model corn head market has probably taken the most significant hit, percentage wise, in our current market. Dealers and skeptical farmers see no value in any updating. Heads never were much of a concern for suppliers to hold, however, now that new units sell well in excess of \$100,000, the significant build-up of inventory is getting a fair amount of attention. What makes it even more sensitive is the gambit of row spacing that one day everyone wants and the next day falls out of favor.

We're seeing increased demand for the flex draper heads and these units, although discounted, seem to have more interest as soybeans seem to be the favored crop. Condition of the units make prices fluctuate more than markets. We also see an increased disproportionate demand for units with air reels/bars, making this option a smart addition.

Canola production makes the pickup platform market strong mostly because there is a very limited supply. In addition, there are many farmers going back to small grain production to hold costs down and to take advantage of some attractive contracts offered.

Combines: Selling Price

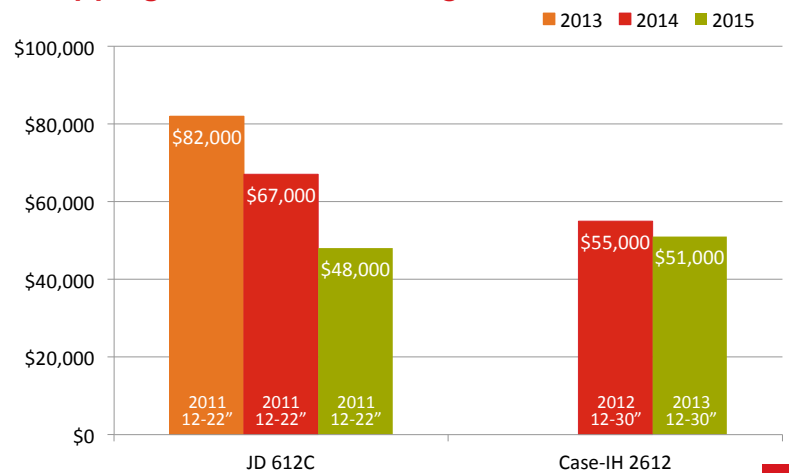


Combines: 2009 & Newer

Year	2013		2014		H12015	
	# of pc.	ASP	# of pc.	ASP	# of pc.	ASP
Combines	92	\$154,900	72	\$167,238	20	\$156,550

*ASP = Average Selling Price # of pc. = Number of Pieces

Chopping Corn Heads: Selling Price



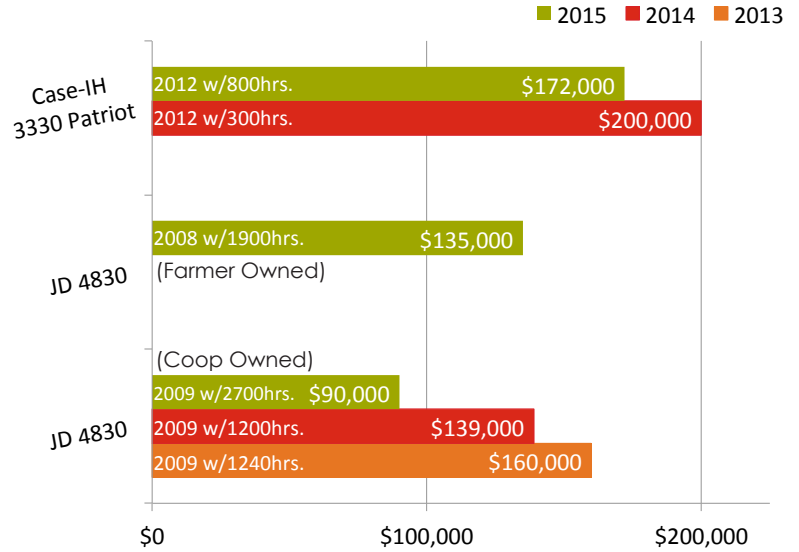


Sprayers

Less than 5 years ago, it was almost unheard of that an individual farm operation would have its own self-propelled sprayer. Now several operators have two or more and it could be argued it's their most valued tool to manage their farm, increase production, and control costs. The problem with the market today is probably related more to supply than anything else.

Until recently, there was an insatiable demand for these units, they just couldn't keep up. Now there seems to be nowhere to go for the very large, high capacity units with higher hours. The large farms and commercial operators who use these don't want them because they have too many hours and are higher maintenance. The smaller operators have no interest because they are simply too large, so there is a big void. This may be an oversimplification, but certainly one explanation for the current discounts.

Self-Propelled Sprayers: Selling Price



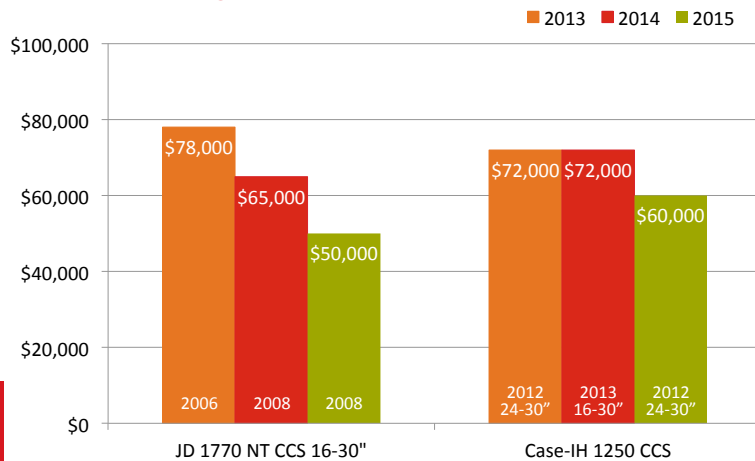
Sprayers: 2009 & Newer

Year	2013		2014		H12015	
	# of pc.	ASP	# of pc.	ASP	# of pc.	ASP
Combines	10	\$177,850	15	\$146,300	6	\$155,600

*ASP = Average Selling Price # of pc. = Number of Pieces



Planters: Selling Price



Planters

No one segment of the agricultural equipment market has seen more technological advances than planters. With the extraordinarily high price of seed, its placement and ability to precisely control it brings huge dividends to operators. They are willing to spend excessive sums to have the latest and greatest technology as they view the payback quick and significant. This brings another factor into our current tough market, obsolescence. You better have an iPad, central fill, control of individual rows, residue management and know exactly how many kernels you are putting in the ground and at what depth. The so-called "Dumb" planters, that have years of service remaining, are stagnating in the market. Features of individual units greatly affect demand and disproportionate discounts are handed out to anyone who doesn't load their units up with the latest and the greatest. Row spacing changes markets quickly with the 30 inch row still the most popular and in demand. The 20 inch spacing and 22 inch spacing tend to be more geographic. The 36 inch row spacing is rarely seen anymore in the areas where we operate.



Tillage

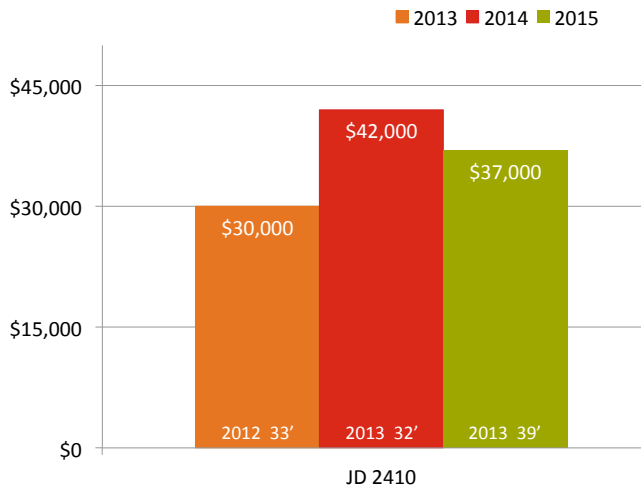
It wasn't more than 15 months ago farmers were quoted waiting periods for delivery of new tillage pieces. We were actually selling used units for near or sometimes more than new prices because those units were the only available.

How quickly things change. We've had recent sales of near new units selling for less than 50% of new pricing! The hardest hit market is the heavy rippers, which reflects fewer corn acres, and the price per bushel being half of what it once was. Besides heavy rippers, the vertical tillage units have adjusted as the market is maturing. Some operators are paying the price of owning units the market has heavily discounted because their operation and results don't meet

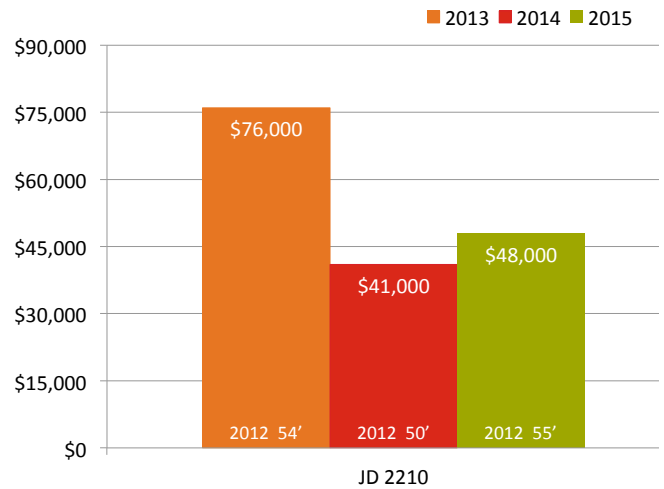
expectations. The market is very brand sensitive with Salford leading the way. Farmers who take advantage of the current markets will benefit greatly in the coming months as typically tillage pieces hold value very well as long as repairs are kept current.

Besides large rippers, chisel plow demand has dwindled and it seems cultivators as well. On the other hand, heavy harrows are very strong, and rock rollers of any brand are still extremely strong. The wider they are, the more bidders we see.

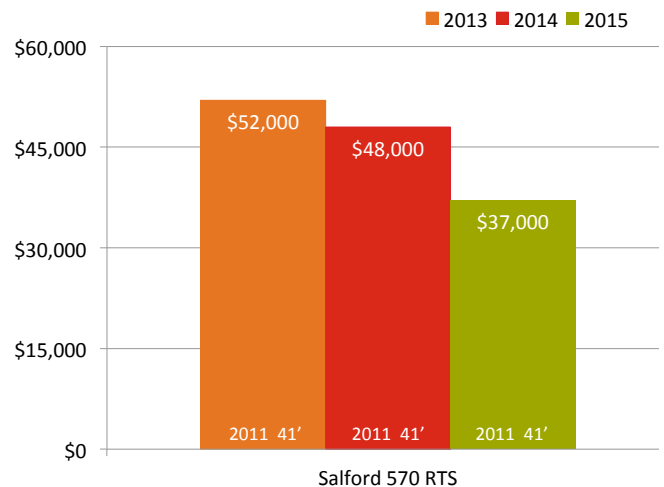
Chisel Plow: Selling Price



Field Cultivator: Selling Price



Vertical Tillage: Selling Price





Market Forces: The Big 3

Here at Steffes, we have always asserted changes in used machinery values are predictable when tied to three market forces in this order:

1. **Commodity Prices**
2. **Crop Production**
3. **Interest Rates**

This is further explanation and justification to the unprecedented prosperity in agriculture these last several years. We have been 3-for-3 with high prices, excellent production and low interest rates.

This also gives us optimism for the future even though commodity values have corrected. We still have low interest and the optimism of a good crop yet to come. The world population is ever increasing and with the capabilities of the American farmer we have no equal for production volume, quality, and the ability to transport and deliver a quality product.

Real Estate values are always less reactive, especially in the short term, and a rise in interest rates will have the most profound impact on values as we move forward.

Inventories

The large equipment manufacturers are cutting production. In the long term, this is very healthy and necessary to dwindle supplies. We believe late model units sold this Spring will sell for the same amount or more two years from now. This has occurred in the past and will happen again. Also, operators who have the wherewithal and foresight will enjoy good demand in the future for new items purchased this Summer and Fall, as those units 2-3 years from now will not be abundant in the marketplace. They will also have every dealer in their trade area catering to them, willing to do anything to sell a new piece in a tough market. Deals will be had.

Game Changers

Section 179

Unless Congress changes, 2015 will be the first year the large Section 179 deductions for farm machinery purchases will not be available. We believe this will have a profound effect, eliminating incentives to trade for new. Look for this impact, especially for dealers, later this Fall and year end.

On the other side, the 179 deductions have left many farmers with huge investments in farm machinery with significant potential tax liability as late model machinery values are substantially higher than their basis. What exacerbates this further is debt, which becomes the elephant in the room when it comes to liquidating that asset. Although carrying a 50% debt to value on depreciated machinery might cash flow well, it leaves very little if no equity after taxes are paid. Raise the debt load to 70% of value and taxes will most certainly eliminate any cash.

Imagine the buyer of a \$300,000 combine two years ago who finds its current market value to be \$200,000. He took advantage of cheap financing and put 20% down, made one payment and still owes \$210,000 but is unable to cash flow. When he bought the machine he took the deduction to save taxes so not only is he upside down \$10,000 on the sale, he has a potential tax liability of \$80,000! This reality is striking.

Politics

History will tell you the American farmer has felt the impact of strained relations, embargoes, trade restrictions and so many other historical incidents that hurt the heartland. These are all unpredictable and could potentially impact or change a trend literally overnight.



Land Values & Cash Rents

Current State

Cropland

In the markets we operate in, farmland values are generally down some 5-20% from their all-time high in Q4 2012. Through much of 2014, it seemed that "square, flat, and black" farmland featuring favorable soils and drainage was still strong. This is now only true in places where there is pent up demand and strong investor interest. Couple this with producers that have strong operating portfolios and there are still tracts of land that command 2012 prices.

On the contrary, marginal farmland, which is defined by poor drainage, soils, and topography has softened rather significantly. In some cases it has gone down 40% and it doesn't take a genius to figure out why. Investor buyers do not want to spend money on poor quality land that might be difficult to rent for a respectable return in turbulent times. Much the same, farmers do not want to shell out significant cash for land that does not have the propensity to produce bumper crops in times where commodity prices are so lackluster.

Pasture & Grazing Land

2014 brought with it some shockingly high pastureland sales. Ranchers are still aggressively growing their herds and attempting to make room for additional animals as they take advantage of historically high prices. Acquiring additional grass is a part of this equation and producers are hot after it.

Cash Rents

Cash rents appear to still be lagging the market in some cases. On the land we manage and the land we have rented out for clients this Spring, it is evident there are still producers out there who are still aggressively acquiring acreage and are willing to pay strong cash rents.

Future Outlook - The Big 3

Commodity Prices, Interest Rates, and Crop Production

Even though surplus cash and cash flows continue to decline for farmers, we believe the cropland market will stabilize at some point on quality ground. We believe there will be a lack of sellers and the demand for quality land will keep pace with supply. For many landowners, the current market and the future bottom is at a price level at which they simply aren't willing to sell. Watch for an interest rate hike in 2016, as it will create downward pressure on farmland values. The number of farmland sales will be down this year as compared to years past as owners wait for a more favorable market to exit.

Pasture & Grazing Land

Pasture and grassland owners will have continued selling opportunities as we traverse through 2015. We expect sales on this type of land to remain strong through 2015 and into 2016.

Cash Rents

Unless commodity prices notch up significantly, look for cash rent contracts renewed in the Fall of 2015 and Spring of 2016 to be off from 2013 highs. The reality of reduced cash flows and dwindling excess cash will appear for producers.

Buying Opportunities

"Buy low sell high" as the old adage goes. For farmers who have positioned themselves to be in a strong position to purchase land through turbulent times, there will be buying opportunities through the next couple of years. We believe there will be upcoming opportunities to purchase land at price levels that have not been seen since the late 2000's.





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Look for the release of our Fall 2015 Edition later this year!



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