**Titan Machinery: Risk Factors**

Updated: 12/8/2024

* ***Reliance on CNH Industrial as substantial equipment and parts inventory supplier.***
  + CNH ability to design, manufacture, allocate and deliver to our stores at the right time high quality and desirable products that compare favorably.
  + CNH support through inventory financing, financial assistance (customers, retail), marketing support, incentive financing for discounts.
  + CNH Product Warranties and Extended Warranties.
    - CNH impacted by:
      * Global economic conditions and economic downturns, industry declines, natural disasters, labor strikes or similar disruptions, changes in interest rates, energy prices, inflation, financial performance and liquidity concerns, supply shortages or rising raw materials costs, failed strategic initiatives, or other adverse events.
  + Term changes: CNH may terminate or change Dealer Agreements.
  + CNH may add additional dealers in the sales area.
  + Change distribution system.
  + Limit product offerings.
  + Change pricing and delivery terms (ie unexpected early delivery, leading to higher carry cost).
* ***Farm net income – which is influenced by factors not under control.***
* ***Inflation increases to cost of equipment + higher interest rates impact on customer purchasing decisions.***
* ***Competitive conditions in the Equip Distribution Industry.*** 
  + Subject to sudden supply-demand imbalances.
    - Over-production of equipment.
    - Sudden reduction in demand.
  + Leasing arrangements.
    - When equip comes off lease, leads to increase in supply of late-model used equipment which can create used equipment over-supply condition and downward pressure in used equip sales and margins.
    - Rental house trade-in schedules can lead to temporary supply imbalance.
  + E-Commerce companies selling parts will impact parts sales and margins.
    - Expect this pressure to increase in the future.
  + Right to Repairs COULD impact in the future. Not sure of the impact at this time.
* ***Supply Chain***
  + Significant disruptions starting calendar year 2020 = longer lead times.
    - Mostly mitigated at this point.
* ***International Operations***
  + 13.8% of revenue came from Europe/Australia.
  + Export duties.
  + Fluctuations in currency exchange rates.
* ***Financial Risks***
  + Inventory Management.
    - Orders for purchase of new equipment is based on projected demand. What impacts demand? Drop in net farm income, weather disruptions, construction industry recession.
    - Oversupply will cause downward pressure on sales and margins.
    - Equipment inventories are stated at the lower of cost or net realizable value. Adjustments to this value are recognized as cost of sales, which negatively impact earnings in the periods they occur.
  + Level of indebtedness limits flexibility.
    - Increase vulnerability during adverse economics and industry conditions.
    - Limits ability to plan for and react to changes in industry/business.
    - Limits ability to obtain additional financing for working cap, capex, etc.
* ***Customer credit risks***
* ***Taxes – rates and new legislation.***
* ***Weather and Climate Risks.***
  + Fewer acres planted or harvested.
  + Lower yield on those planted acres.
  + Delays and cancellations of construction projects.
  + Greenhouse gas emission regulations
* ***Labor***
  + Unions
  + Shortages/higher pay = lower margins
* ***Liability Risk from sale of Equipment, parts, services***