

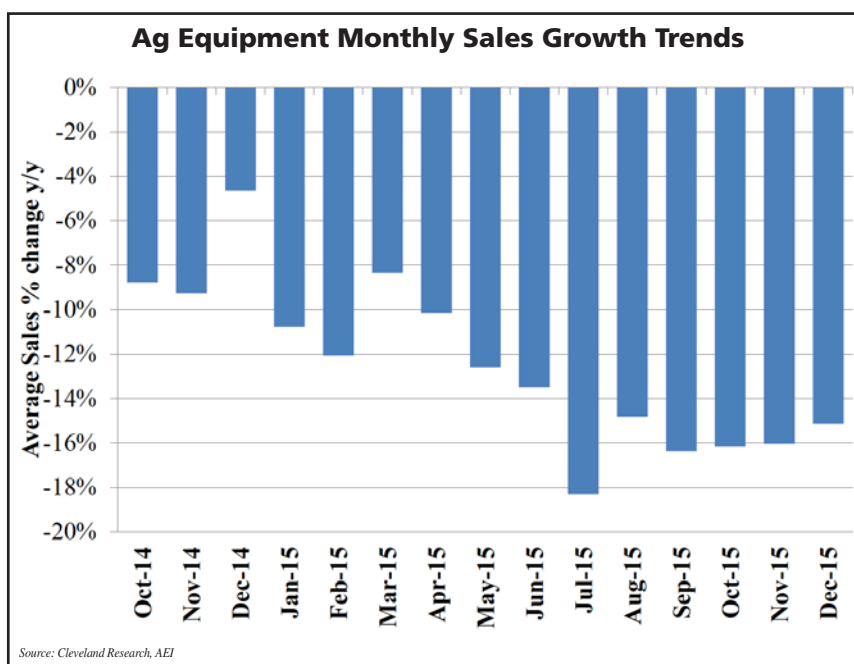
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 15% in December

- ✓ North American ag equipment dealers reported their sales, on average, were down 15% year-over-year in December, slightly better than the 16% drop the month before.
- ✓ A net 41% of dealers say their new equipment inventories are "too high," an improvement from the net 55% in November who reported new equipment inventory was "too high."
- ✓ Used equipment inventories were slightly worse in December, with a net 38% of dealers reporting inventory was "too high" vs. 37% the prior month.
- ✓ Dealers report that used large tractor pricing is down 9% on average and used combine prices were down 14% in December, in line with the average in the fourth quarter.



Results vs. Expectations															
	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
Better than expected	22%	21%	29%	26%	13%	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%
In line with expectations	51%	40%	47%	57%	59%	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%
Worse than expected	27%	39%	23%	18%	28%	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%
Net % (Better - Worse)	-5%	-18%	6%	8%	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%

## 2016 Full-Year Outlook: Down 9%

- ✓ The average dealer sales forecast for 2016 is for a 9% decline, in line with last month. A net 47% of dealers are forecasting a sales decline for the year.
- ✓ The 2015 dealer average sales forecast ended down 13% year-over-year, in line with November's projection. A net 44% of dealers disclosed a sales decline for the year.
- ✓ Kubota dealers once again reported the least negative outlook calling for a -2% decline in sales. Shortline/Other and Case IH dealers are calling for the largest drop in sales, both forecasting an 18% decline.

Dealer Outlook													
(% chg y/y)	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
AGCO	0%	-10%	-11%	-12%	-5%	-3%	-9%	-15%	-4%	-15%	-14%	-15%	-11%
John Deere	-9%	-11%	-18%	-8%	-15%	-18%	-14%	-14%	-14%	-11%	-15%	-10%	-12%
New Holland	-3%	-6%	-11%	-10%	-4%	-9%	-8%	-10%	-17%	-11%	-12%	-15%	-9%
Case IH	-11%	-14%	-17%	-17%	-14%	-20%	-24%	-22%	-20%	-26%	-16%	-19%	-18%
Kubota	-6%	-11%	-13%	-17%	-10%	-14%	1%	3%	-1%	13%	10%	7%	-2%
Shortlines/Other	-9%	-7%	-10%	-13%	-10%	-7%	-8%	-11%	-16%	-9%	-11%	-11%	-18%
Overall	-8%	-11%	-15%	-10%	-12%	-15%	-15%	-16%	-15%	-14%	-14%	-13%	-13%

## Dealer Optimism Drops

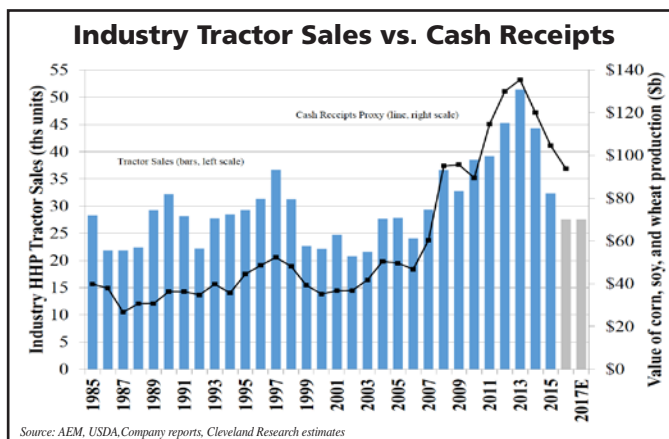
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 36% of dealers being less optimistic (8% more optimistic, 48% same and 44% less optimistic) in December compared to a net 28% who were less optimistic in November.

Optimism/Sentiment vs. Last Month															
	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
More Optimistic	8%	9%	12%	12%	9%	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%
Same	48%	38%	39%	52%	50%	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%
Less Optimistic	44%	53%	49%	36%	41%	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%
Net % Dealer Optimism	-36%	-44%	-37%	-25%	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-36%

## 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 January crop report was incrementally negative for tractor sales, with our cash receipts proxy now forecasting down 10% year-over-year in 2015-16 compared to a decline of 9% in December and the 2014-15 decline of 13%.



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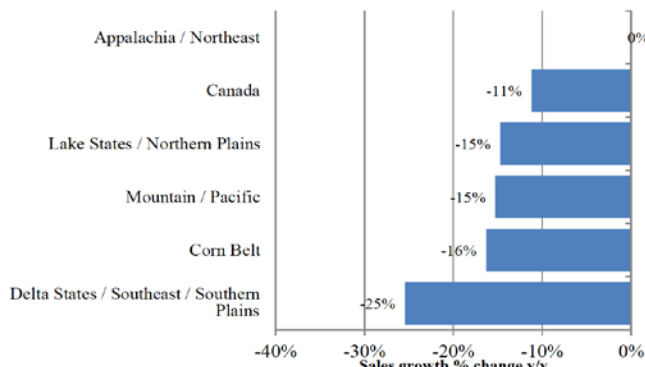
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# NEW EQUIPMENT TRENDS

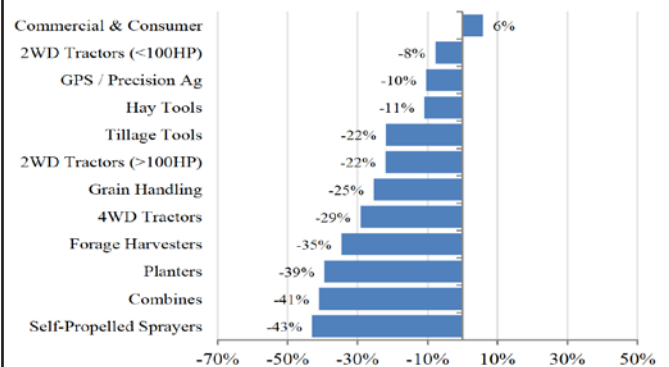
## Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends were mixed by geography, with most regions posting double digit declines in December. The Delta States/Southeast/Southern Plains remain the weakest region, down 25% year-over-year. Appalachia/Northeast was the strongest at flat sales and showed the most improvement.

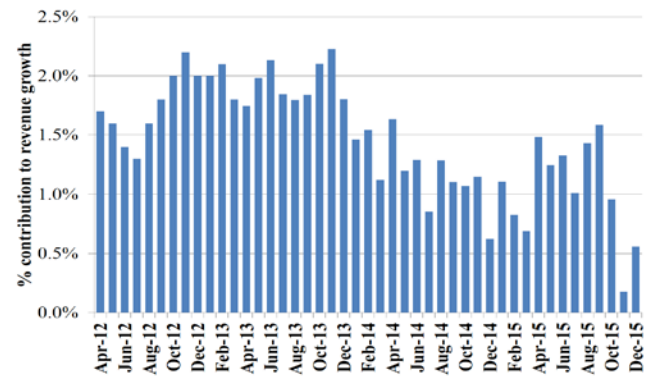
## Equipment Category Sales Trends



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). However, just 6% of dealers reported strength for the category in December compared to 14% in November.

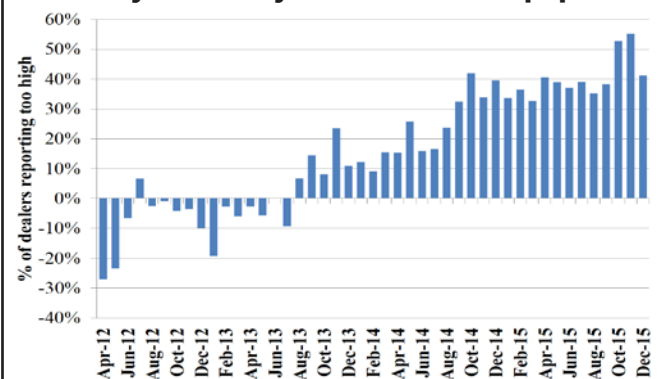
## Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report several OEMs pushed through small price increases in the fourth quarter (~0.5-1.0%), with respondents reporting pricing in December improving 0.6% year-over-year. The effect of the strong U.S. dollar on Canadian exchange rate has also played a part in pricing inflation within North America.

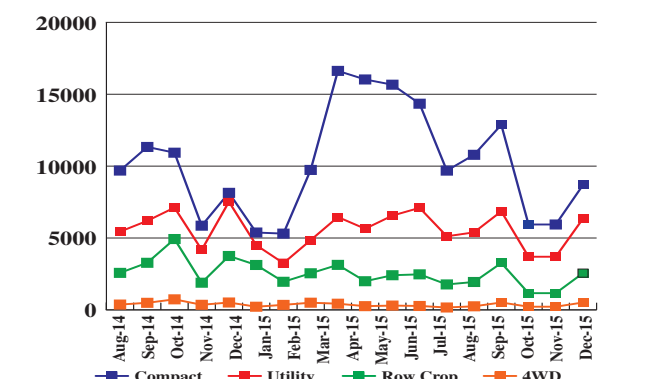
## Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 41% of dealers reported new equipment inventories are "too high" vs. 55% in November and an average 50% in the fourth quarter. This marks 16 months of new inventory levels reported as "too high" by more than a net 30% of dealers, but it was the best reading since September 2015.

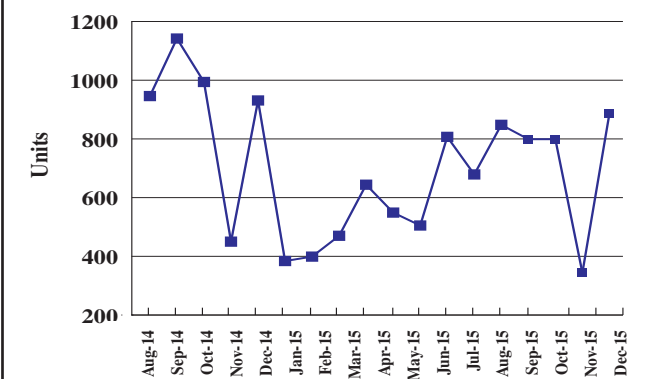
## North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were down 9% year-over-year in December, with row-crop and 4WD tractors down 28%. Sales for <40 horsepower tractors were up 7% in December vs. December 2014.

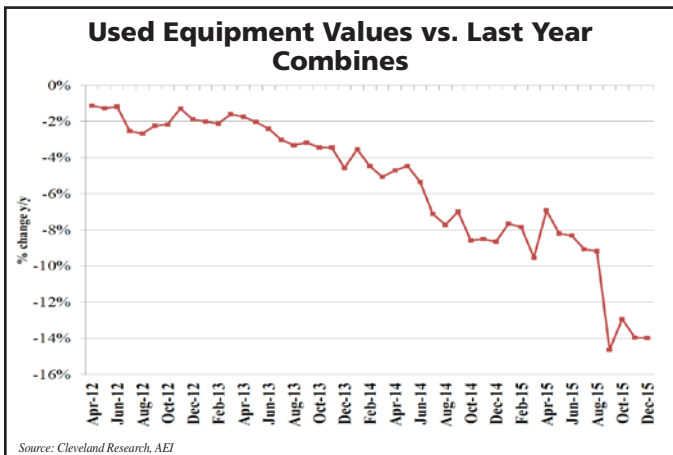
## North American Combine Sales



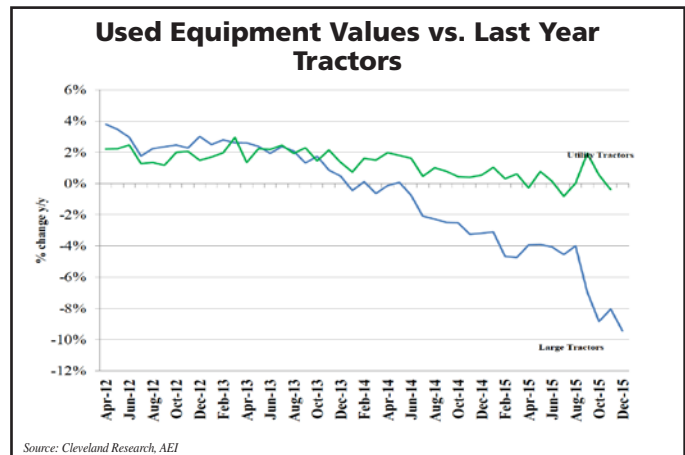
Source: AEM, Cleveland Research, AEI

North American combine sales came in at 886 units in December compared to 920 units in December 2014. On a year-over-year basis, combine sales were down 4%.

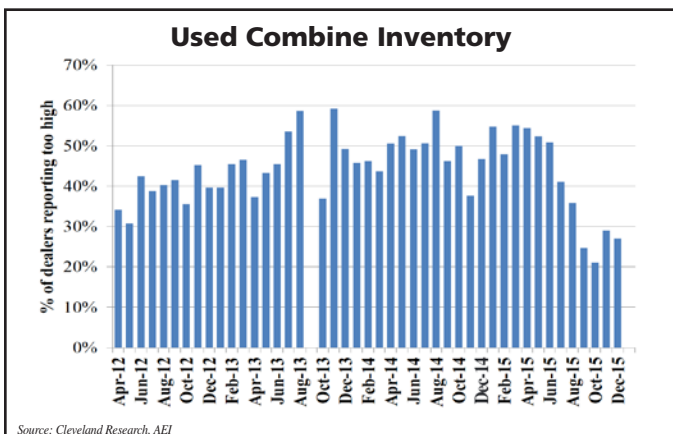
## USED EQUIPMENT TRENDS



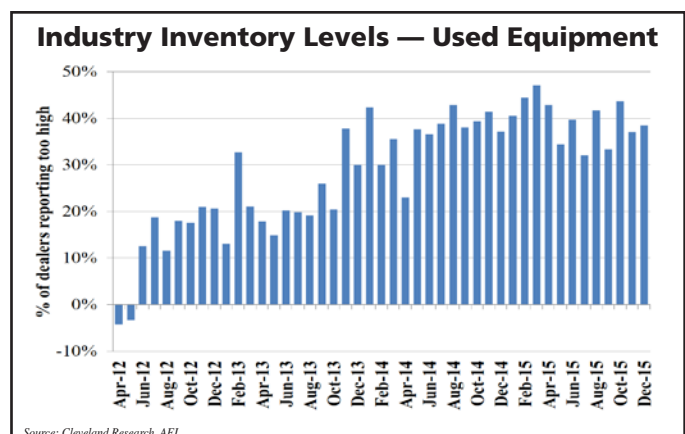
Used combine pricing was down 14% year-over-year in December, in line with November and fourth quarter results.



December saw about a 1% pricing increase in used small tractors, an improvement from flat pricing in November and the fourth quarter. Large tractors were reported down 9% year-over-year on average vs. November's decline of 8%, but in line with the fourth quarter decline of 9%.

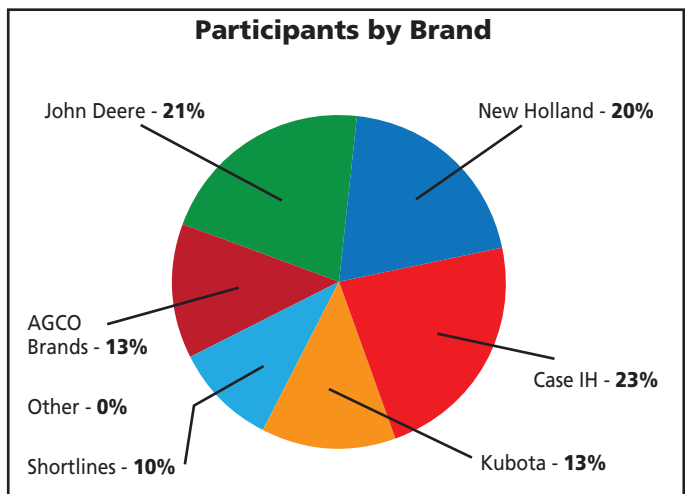
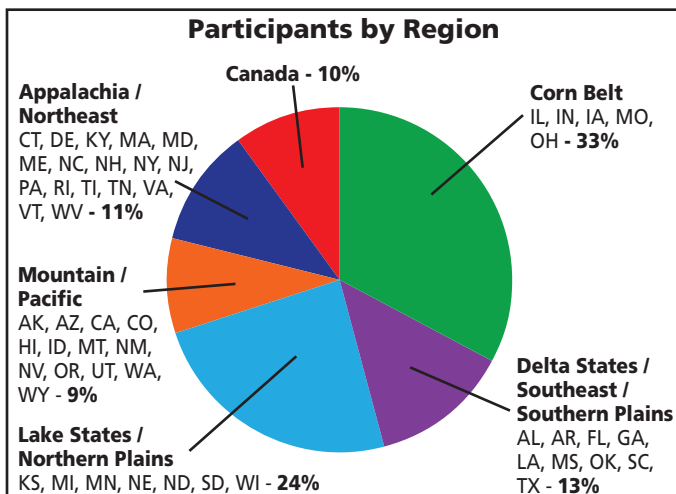


The used combine inventory remains too high with a net 27% of dealers reporting inventories above where they would like them. Used combine inventory has been reported in better shape than general used inventory levels since August.



A net 38% of dealers reported used equipment inventory as "too high" vs. 37% in November.

## JANUARY 2016 SURVEY RESPONDENTS



The January survey had 127 respondents representing combined annual revenues of roughly \$5.8 billion, covering a broad cross section of geographies and brands.