

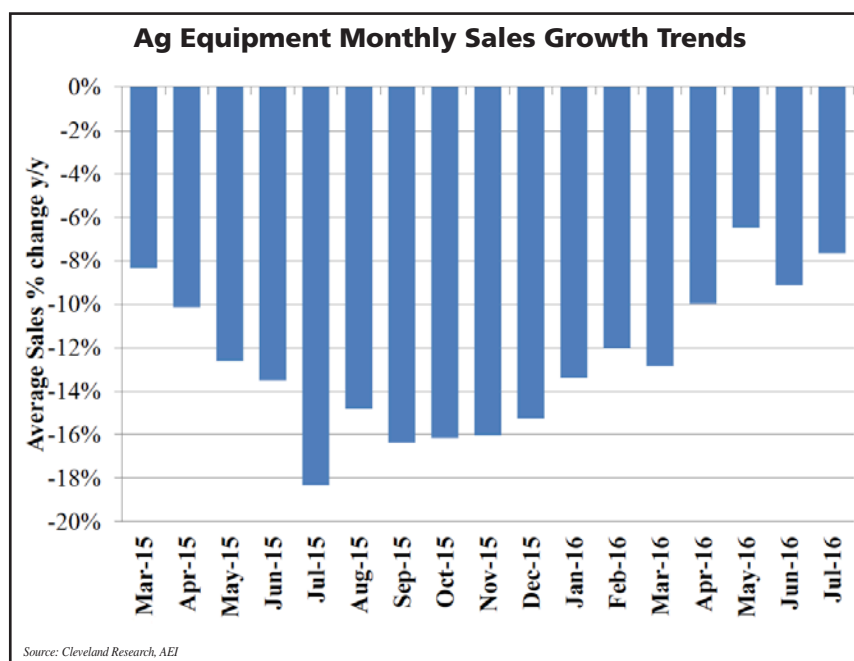
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 8% in July

- ✓ North American ag equipment dealers reported their sales, on average, were down 8% year-over-year in July vs. the 9% decline reported in June.
- ✓ A net 42% of dealers say their new equipment inventories are "too high," a slight improvement from the net 44% of dealers who said their new equipment inventories were "too high" in the previous month.
- ✓ Used equipment inventory levels were reported lower than June, with a net 34% of dealers reporting inventory as "too high" in July vs. 46% the month prior.
- ✓ Dealers continue to report relatively flat new equipment pricing following a slight uptick in 4Q (~0.5-1.0%) as Tier 4 sales and OEM price increases have been offset by greater discounting at the dealer level. Used tractor pricing was reported down 7% year-over-year on average, slightly worse than the 6% reported in June. Used combine pricing was down 10% year-over-year, flat to June's 10% decline.



Results vs. Expectations																	
	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
Better than expected	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%
In line with expectations	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%
Worse than expected	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%
Net % (Better - Worse)	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-27%

2016 Full-Year Outlook: Down 12%

- ✓ Dealers forecast 2016 sales will be down 12% year-over-year, below June's forecast of down 10%. A net 36% of dealers are forecasting a sales decline (26% increase, 11% about the same, 62% decline).
- ✓ The initial sales growth forecast for 2017 was reported at down 8% on average.
- ✓ Kubota dealers and shortline dealers were the only groups to forecast a sales increase for 2016, calling for sales to be up 7% and 11%, respectively. John Deere and Case IH dealers are both calling for sales to be down 15% for the year.

(% chg y/y)	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
AGCO	-9%	-8%	-7%	-9%	-10%	-6%	-15%	-6%	-7%	-8%	-14%
John Deere	-6%	-10%	-9%	-8%	-12%	-10%	-12%	-10%	-6%	-11%	-15%
New Holland	-5%	-12%	-9%	-13%	-6%	-11%	-12%	-8%	-2%	-11%	-14%
Case IH	-7%	-8%	-10%	-10%	-12%	-15%	-11%	-15%	-23%	-11%	-15%
Kubota	3%	3%	4%	2%	-7%	5%	9%	2%	0%	1%	7%
Shortlines/Other	-9%	-15%	-8%	-6%	-12%	0%	-14%	-24%	-6%	-4%	11%
Overall	-6%	-9%	-9%	-9%	-11%	-10%	-11%	-11%	-9%	-10%	-12%

Dealer Optimism Declines Again in July

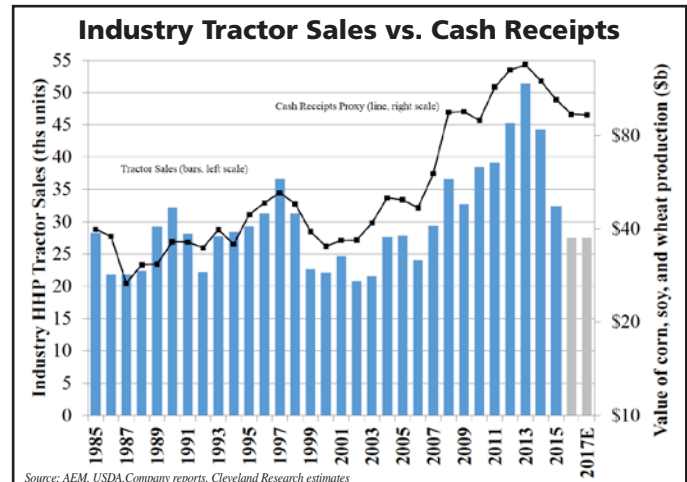
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 24% of dealers being less optimistic (16% more optimistic, 44% same and 40% less optimistic) in July compared to a net 19% who were less optimistic in June.

	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16
More Optimistic	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%
Same	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%
Less Optimistic	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%
Net % Dealer Optimism	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%

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 highly anticipated August crop report was much worse than July, with cash receipts proxy forecast down 1% year-over-year in 2016-17 vs. the prior estimate of up 2%. Yields on corn were raised from 168 to 175 bushels per acre. Expectations for corn pricing fell 7%, while soybean pricing fell 4%, and anticipated beginning stock levels declined for soybeans while staying relatively flat for corn.



The contents of this report represent our interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies, but is not guaranteed as to accuracy or completeness. It does not contain material provided to us in confidence by our clients.

Individual companies reported on and analyzed by Lessiter Media, may be clients of this and other Lessiter Media services.

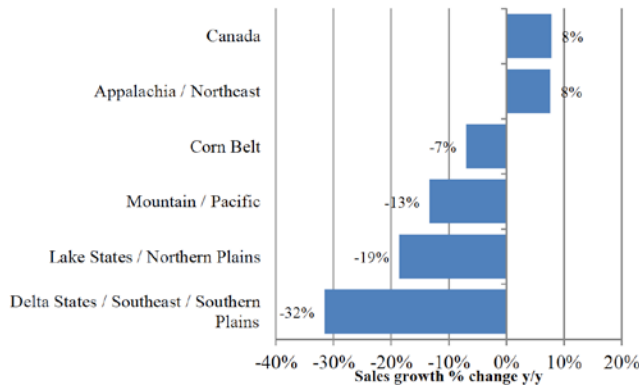
This information is not furnished in connection with a sale or offer to sell securities or in connection with the solicitation of an offer to buy securities.

DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is a joint project of the editors of *Farm Equipment* and research team at the Cleveland Research Co. DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is published monthly and distributed to subscribers of *AG EQUIPMENT INTELLIGENCE* as well as to dealers participating in the survey by Lessiter Media, 16655 W. Wisconsin Ave., Brookfield, WI 53005. © 2016 by Lessiter Media. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher.

Please send any address changes as soon as possible to the address shown above. U.S., Canada and Mexico print subscriptions are \$499 per year. International subscriptions are \$599 per year. Send subscription orders to: *Ag Equipment Intelligence*, P.O. Box 624, Brookfield, WI 53005-0624. Fax: 262-786-5564. Phone: 262-782-4480 or 866-839-8455 (U.S. only). E-mail: info@lessitermedia.com.

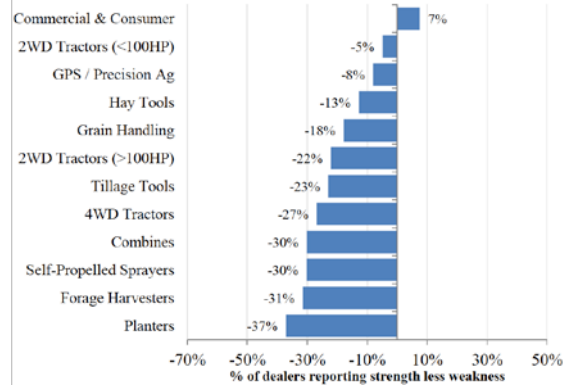
NEW EQUIPMENT TRENDS

Average Sales Growth by Region



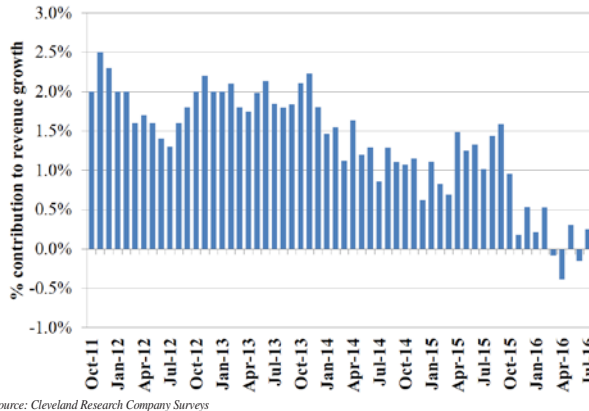
Sales trends were mixed by region during the month, with the Delta States/Southeast/Southern Plains showing the largest sequential declines. There was notable improvement in the month in the Corn Belt, Canada and Appalachia/Northeast regions.

Equipment Category Sales Trends



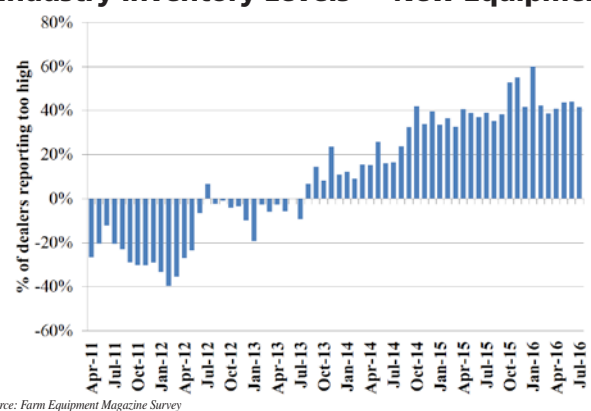
Commercial & Consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). While GPS/Precision Ag equipment had seen strength in the 1H16, trends have deteriorated over the past few months.

Price Contribution to Sales



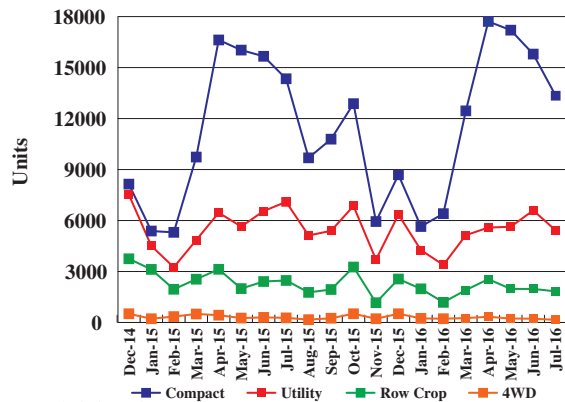
Dealers reported relatively flat pricing over the last few months as incentive programs have more than offset list price increases back in 4Q15. The effect of the strong U.S. dollar on Canadian exchange rate has also played a part in pricing inflation within North America.

Industry Inventory Levels — New Equipment



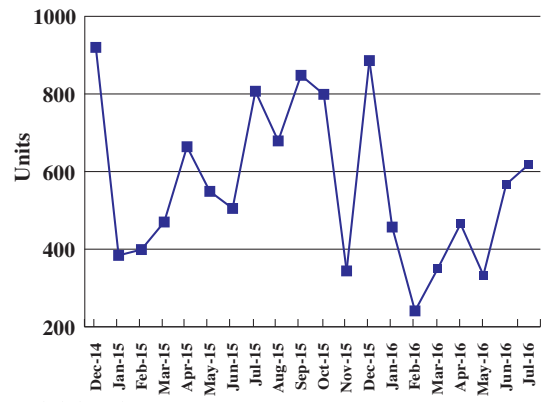
A net 41% of dealers reported new equipment inventories are "too high" (48% too high, 45% about right, 7% too low), vs. 44% (51% too high, 42% about right, 7% too low) in June. This marks 22 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

North American Tractor Sales



Total North American tractor sales were down 14% year-over-year in July, with sales for all tractor categories down. The largest sales decline came from 4WD tractors, which dropped 43% in July.

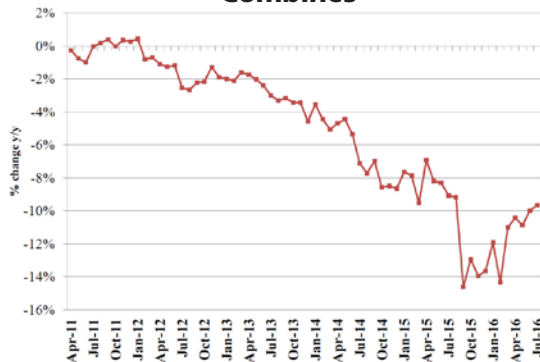
North American Combine Sales



North American combine sales came in at 619 units in July. On a year-over-year basis, combine sales were down 23% following a 13% increase during the previous month.

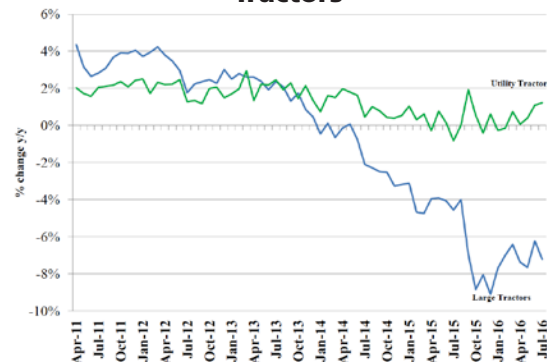
USED EQUIPMENT TRENDS

Used Equipment Values vs. Last Year Combines



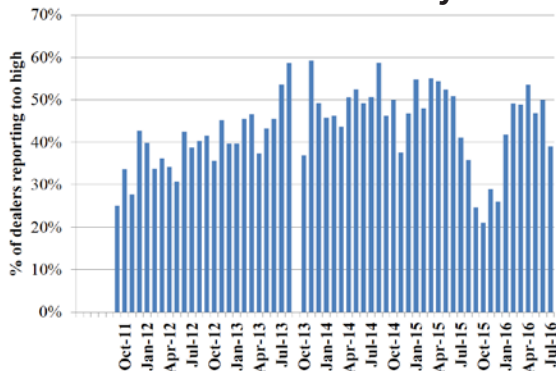
Used combine pricing was down 10% year-over-year during the month, flat to June's 10% decline.

Used Equipment Values vs. Last Year Tractors



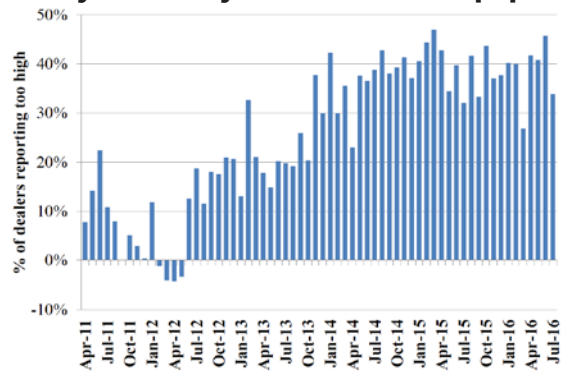
July saw a slight improvement in pricing for small tractors, in line with the past few months. Used tractor prices were reported down approximately 7% year-over-year on average, slightly below the 6% reported in June.

Used Combine Inventory



Used combine inventory levels were reported as "too high" by a net 39% of dealers in July, compared to June's reading of 50% and May's 47%.

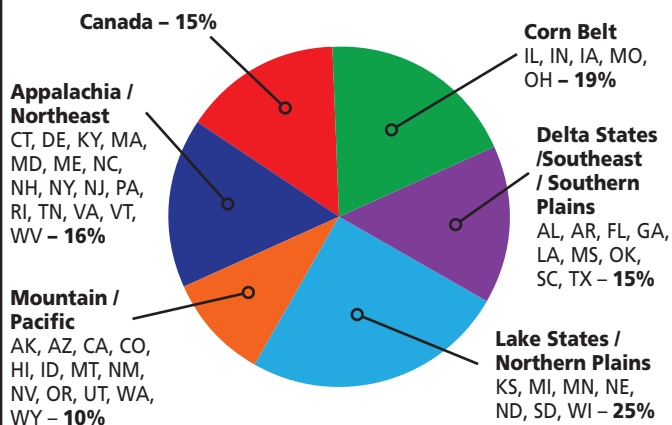
Industry Inventory Levels — Used Equipment



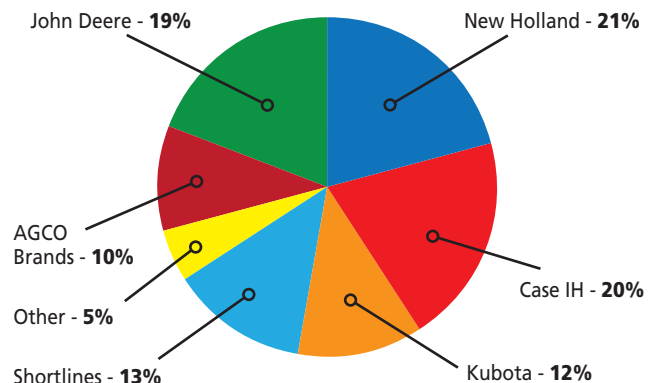
A net 34% of dealers reported used equipment inventory as "too high" (44% too high, 47% about right, 10% too low), an improvement from the 46% reporting heightened inventory in June (55% too high, 36% about right, 9% too low).

AUGUST 2016 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The August survey had about 140 respondents representing combined annual revenues of roughly \$6 billion, covering a broad cross section of geographies and brands.