

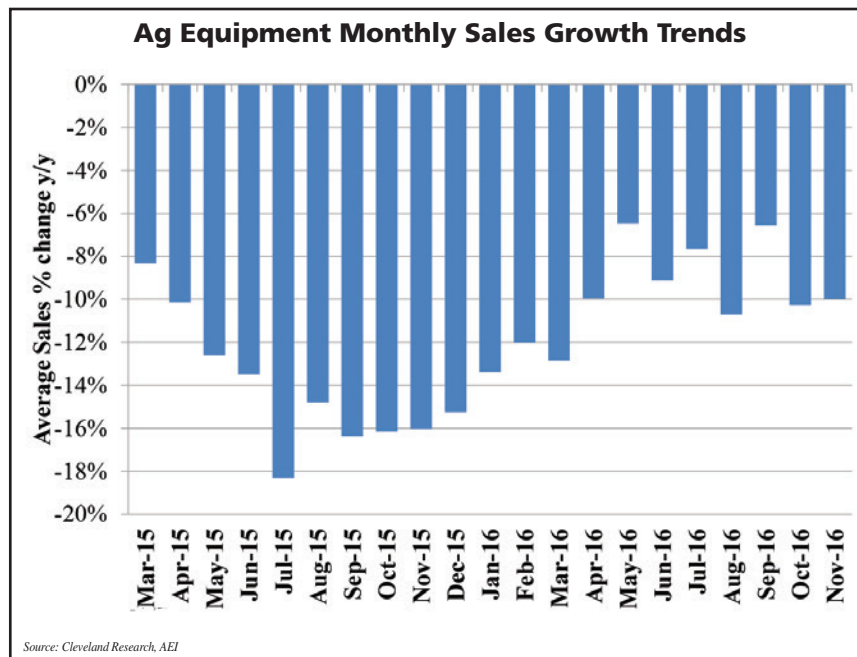
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Decline 10% in November

- ✓ Average North American dealer sales were down 10% year-over-year in November, in line with October.
- ✓ A net 41% of dealers reported their new equipment inventories are "too high," better than the 45% who reported inventories were "too high" the previous month.
- ✓ A lower percentage of dealers (36%) reported their used equipment inventories were up compared to the previous month when 47% said they were "too high."
- ✓ Dealers report little or no change in new equipment pricing during the past month. Prices on used large tractors were down 6% year-over-year on average, an improvement from the down 8% reported the previous month. Used combine pricing was down 8% year-over-year vs. down 12% in October.



Results vs. Expectations																			
	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	Aug-16	Sep-16	Oct-16	Nov-16	
Better than expected	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%	14%	14%	16%	8%	
In line with expectations	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%	44%	44%	40%	61%	
Worse than expected	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%	41%	42%	44%	31%	
Net % (Better - Worse)	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-28%	-27%	-28%	-28%	-24%	

2016 Full-Year Outlook: Sales Down 11%

- ✓ Dealers forecast full-year 2016 sales to be down 11% year-over-year, in line with October's forecast as sales have been trending better than expected year to date (down 10%). A net 51% of dealers are forecasting a sales decline (18% increase, 13% about the same, 69% decline).
- ✓ Despite anticipating sales to be down 2% for the full-year 2016, Kubota dealers were once again the most optimistic of all the dealership groups. Shortline/other dealers were the least optimistic, expecting a 24% decline for 2016.
- ✓ The 2017 sales growth forecast was reported at down 4% on average, a slight improvement from last months' forecast of 5% declines.

Dealer Outlook — 2016												
(% chg y/y)	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16
AGCO	-9%	-10%	-6%	-15%	-6%	-7%	-8%	-13%	-17%	-20%	-15%	-23%
John Deere	-8%	-12%	-10%	-12%	-10%	-6%	-11%	-15%	-14%	-12%	-11%	-15%
New Holland	-13%	-6%	-11%	-12%	-8%	-2%	-11%	-14%	-21%	-18%	-14%	-17%
Case IH	-10%	-12%	-15%	-11%	-15%	-23%	-11%	-15%	-15%	-9%	-10%	-11%
Kubota	2%	-7%	5%	9%	2%	0%	1%	7%	2%	2%	0%	-2%
Shortlines/Other	-6%	-12%	0%	-14%	-24%	-6%	-4%	11%	-26%	-12%	-10%	-24%
Overall	-9%	-11%	-10%	-11%	-11%	-9%	-10%	-12%	-15%	-12%	-11%	-11%

Dealer Optimism Improves in November

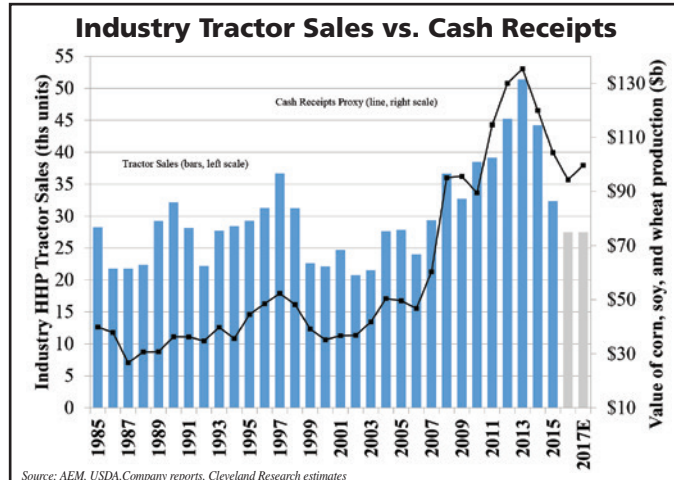
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 10% of dealers being less optimistic (15% more optimistic, 60% same and 25% less optimistic) in November compared to a net 21% who were less optimistic in October.

Optimism/Sentiment vs. Last Month																	
	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	Aug-16	Sep-16	Oct-16	Nov-16
More Optimistic	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%	11%	14%	13%	15%
Same	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%	52%	49%	53%	60%
Less Optimistic	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%	36%	38%	34%	25%
Net % Dealer Optimism	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%	-24%	-21%	-10%

USDA Outlook for Cash Receipts

Since 2009, the value of production of U.S. corn, soybeans and wheat has correlated very closely to the annual industry sales of high horsepower tractors. This chart shows the historical relationship between the value of U.S. corn, soybeans and wheat production vs. the annual industry sales of high horsepower (>100 HP) tractors.

USDA's December crop report was better than November, with the cash receipts proxy forecast up 6% year-over-year in 2016-17 vs. the prior estimate of up 5%. Corn yield forecasts were unchanged from November's forecast of 175 bushels per acre. Corn price forecasts increased 2% from November's estimate and soybean price forecasts were up 3% from the previous estimate.



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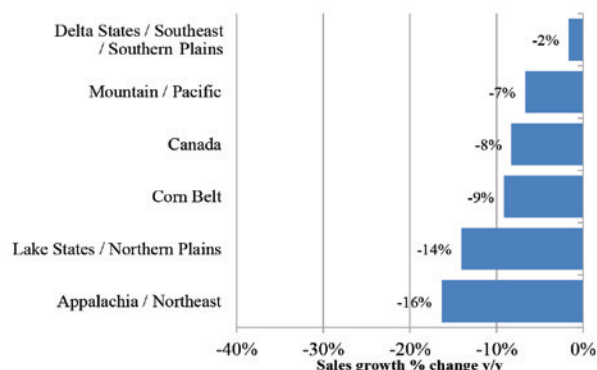
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NEW EQUIPMENT TRENDS

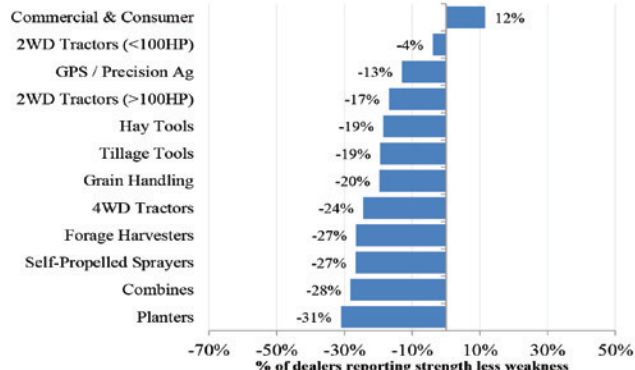
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends by region were negative overall in the month, as further declines were noted across all regions particularly in Appalachia/Northeast. Canada showed the largest sequential improvement for the month

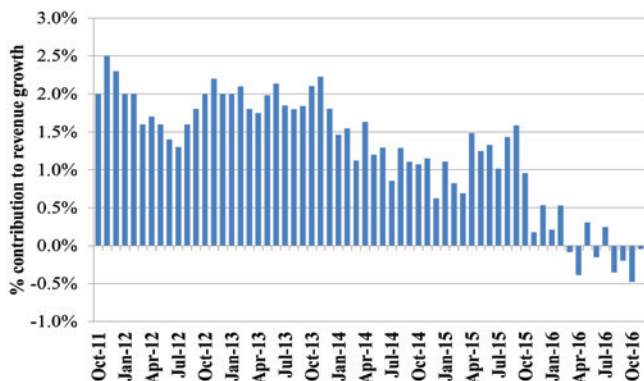
Equipment Category Sales Trends



Source: Farm Equipment Magazine Survey

Commercial & consumer lawn equipment was the only equipment category to show ongoing strength, while all other major categories continue to struggle. While GPS/precision farming equipment had seen strength in the in the first half of 2016, trends have deteriorated over the past few months

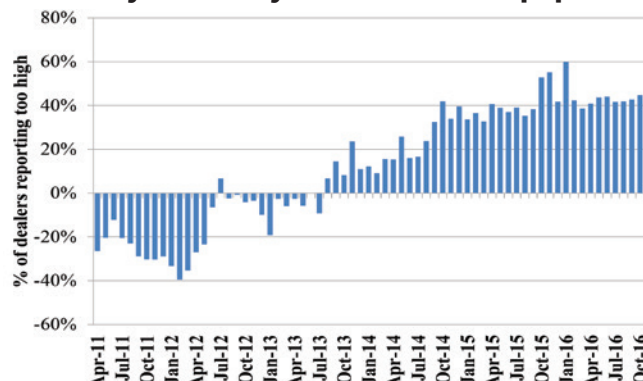
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers once again reported flat pricing, as they have for much of 2016. However, on equipment pricing and incentives, one dealer commented: "Pricing has exceeded affordability. We are anticipating a 1-2% price increase in 2017."

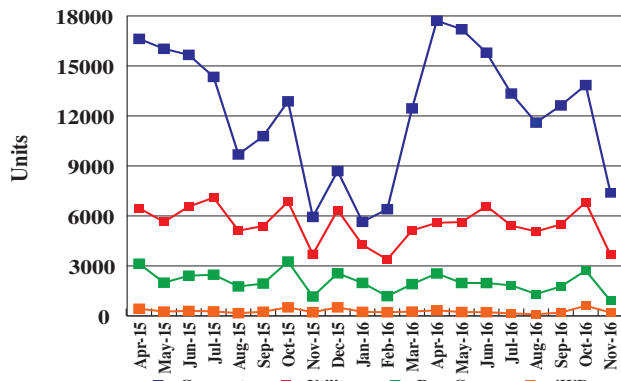
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 41% of dealers reported new equipment inventories are "too high" (46% too high, 49% about right, 5% too low), which is slightly better than October when a net 45% of dealers reported inventories were "too high." New equipment inventory levels have been reported as "too high" for the past 3 years.

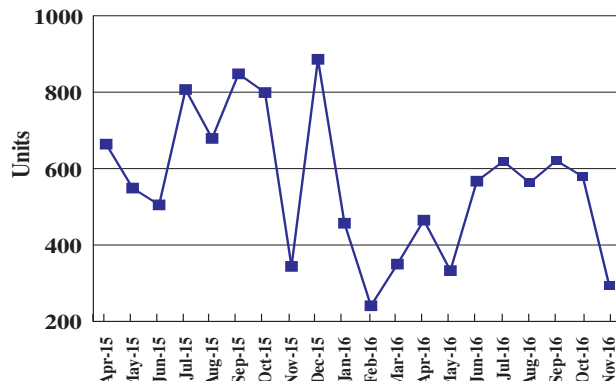
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were up 8% year-over-year in November vs. November 2015 on the strength of compact tractor sales.

North American Combine Sales

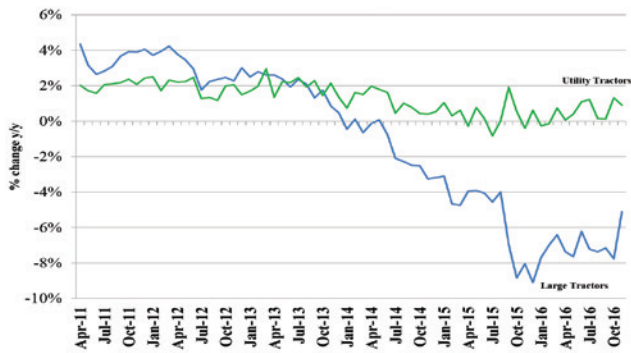


Source: AEM, Cleveland Research, AEI

Total North American combine sales declined 14% in November vs. November of the previous year.

USED EQUIPMENT TRENDS

Used Equipment Values vs. Last Year Tractors



Source: Cleveland Research, AEI

Pricing improved for used high horsepower equipment in November. Large tractors were reported down about 6% year-over-year, an improvement from the 8% decline reported in October.

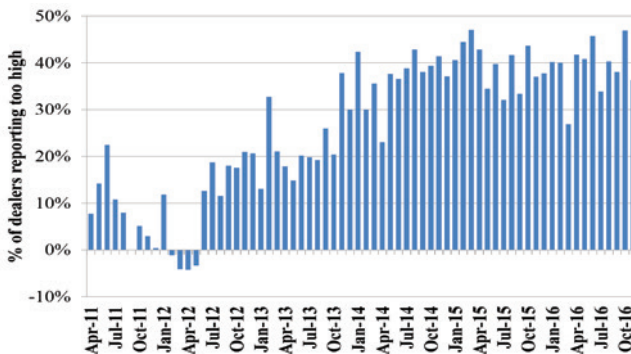
Used Equipment Values vs. Last Year Combines



Source: Cleveland Research, AEI

Used combine pricing was down 8% year-over-year in November, better than the 12% decline in October.

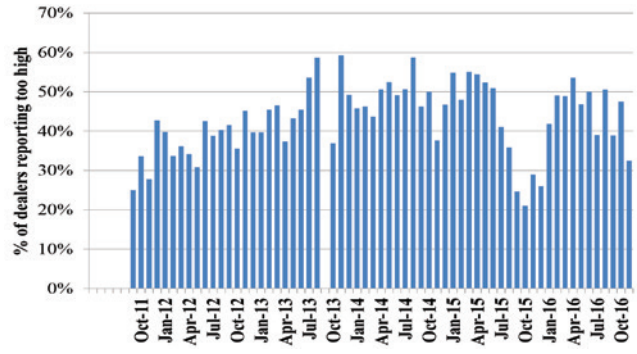
Used Equipment Inventory



Source: Cleveland Research, AEI

A net 36% of dealers reported used equipment inventory as "too high" (44% too high, 48% about right, 8% too low), better than the 47% (52% too high, 42% about right, 5% too low) reporting heightened inventory in October.

Used Combine Inventory

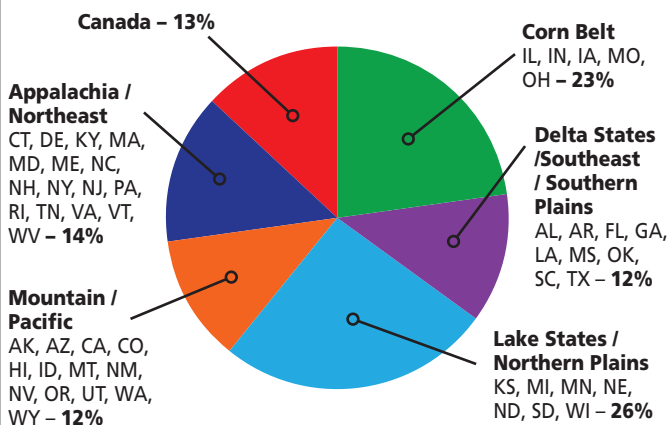


Source: Cleveland Research, AEI

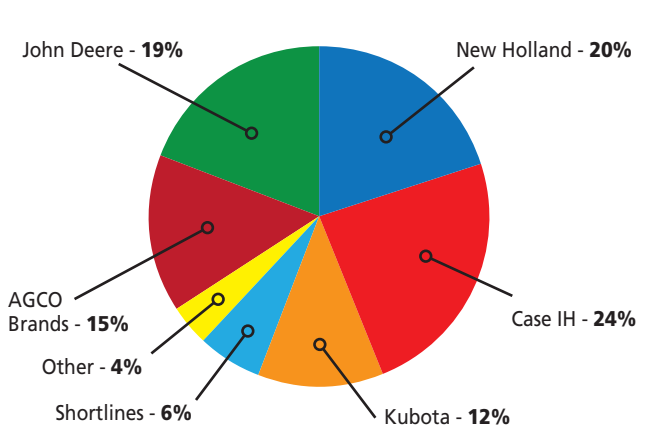
Used combine inventory levels were reported as "too high" by a net 33% of dealers in November, compared to October's reading of 48% and September's 39%.

DECEMBER 2016 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The December survey had about 120 respondents representing combined annual revenues of roughly \$6 billion. By brand, 19% of respondents were John Deere dealers, 20% New Holland, 24% Case IH and 15% AGCO dealers.