

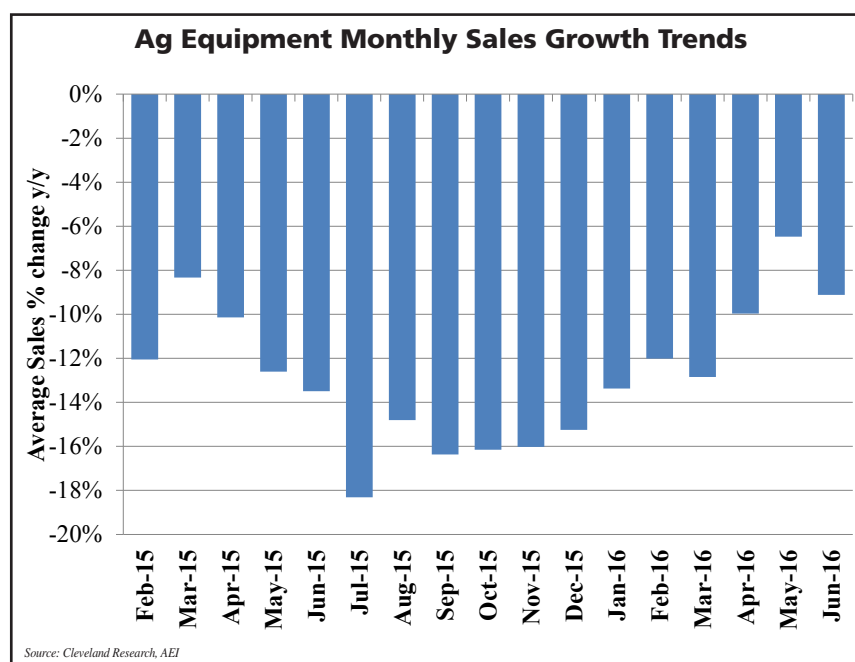
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 9% in June

- ✓ North American ag equipment dealers reported their sales, on average, were down 9% year-over-year in June, down from the 6% decline reported in May.
- ✓ A net 44% of dealers say their new equipment inventories are "too high," flat compared to the previous month.
- ✓ Used equipment inventories were reported as "too high" by a net 46% of dealers vs. a net 41% the prior month.
- ✓ Dealers once again reported relatively flat new equipment pricing following a slight uptick in the 4Q as Tier 4 sales and OEM price increases have been offset by greater discounting at the dealer level. Used large tractor pricing is reported down 6% year-over-year on average. Used combine prices were reported down 10%, a slight improvement from the 11% decline in May.



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
Better than expected	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%
In line with expectations	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%
Worse than expected	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%
Net % (Better - Worse)	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%

2016 Full-Year Outlook: Down 10%

- ✓ On average, dealers are forecasting 2016 sales to be down 10% year-over-year, below their forecast from the previous month. A net 38% of dealers are forecasting a sales decline (22% increase, 18% about the same, 60% decline).
- ✓ Kubota dealers were the only group to forecast a sales increase for 2016, calling for sales to be up 1%. John Deere, New Holland and Case IH dealers are all calling for sales to be down 11% for the year.

Dealer Outlook — 2016									
(% chg y/y)	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16
AGCO	8%	-7%	-9%	-10%	-6%	-15%	-6%	-7%	-8%
John Deere	-10%	-9%	-8%	-12%	-10%	-12%	-10%	-6%	-11%
New Holland	-12%	-9%	-13%	-6%	-11%	-12%	-8%	-2%	-11%
Case IH	-8%	-10%	-10%	-12%	-15%	-11%	-15%	-23%	-11%
Kubota	3%	4%	2%	-7%	5%	9%	2%	0%	1%
Shortlines/Other	-15%	-8%	-6%	-12%	0%	-14%	-24%	-6%	-4%
Overall	-9%	-9%	-9%	-11%	-10%	-11%	-11%	-9%	-10%

Dealer Optimism Drops in June

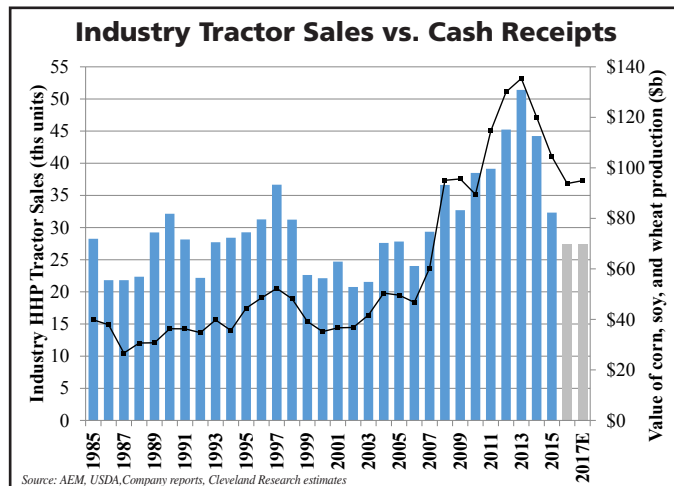
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 19% of dealers being less optimistic (11% more optimistic, 60% same and 30% less optimistic) in June, after seeing an improvement in May.

Optimism/Sentiment vs. Last Month																
	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
More Optimistic	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%
Same	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%
Less Optimistic	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%
Net % Dealer Optimism	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%

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 July crop report was flat compared to June, with our cash receipts proxy forecast up 1% year-over-year in 2016-17 vs. an estimated 10% decline in the 2015-16 crop season. Expectations for corn pricing declined, while soybean pricing was flat and anticipated beginning stock levels decreased for both crops. Corn production for new crop was raised by 110 million bushels and soybean production for new crop was raised 80 million bushels.



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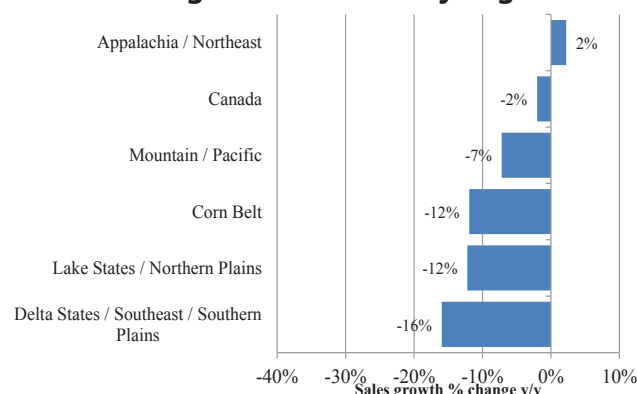
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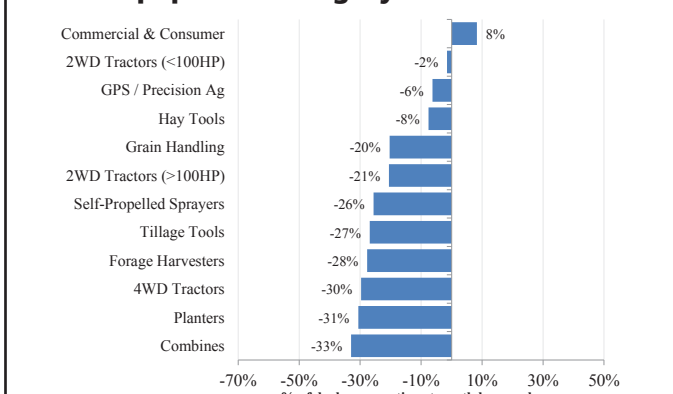
NEW EQUIPMENT TRENDS

Average Sales Growth by Region



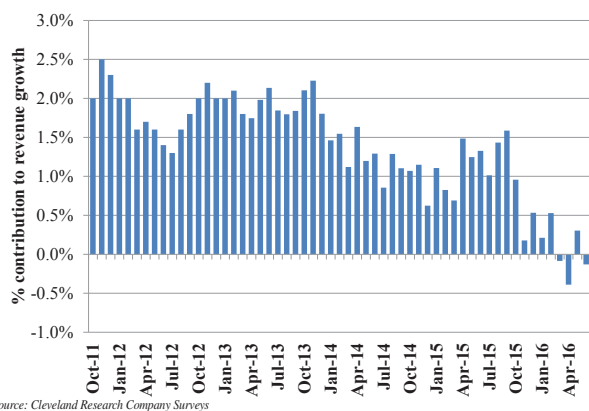
Sales were mixed by region during June with the Lake States and Northern Plains showing the largest sequential declines. All other states remain in negative territory with the exception of the Appalachia/Northeast, which improved to up 2% in June from down 9% in May.

Equipment Category Sales Trends



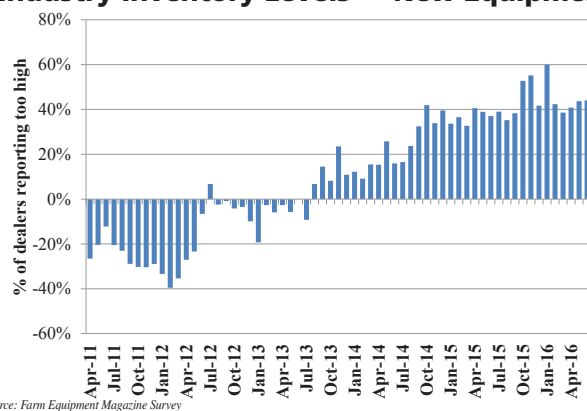
Commercial and consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). In line with the past few months, GPS/Precision Ag equipment has seen strength. We continue to see significant headwinds to large equipment sales.

Price Contribution to Sales



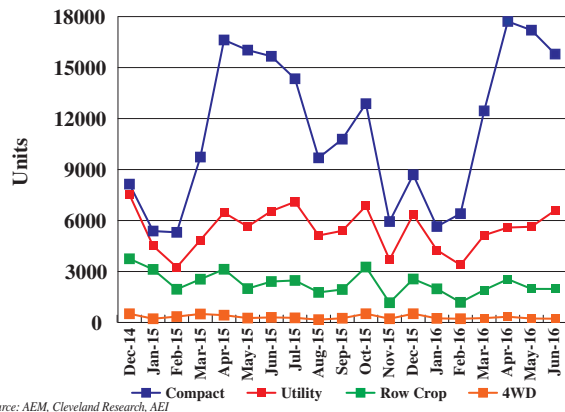
Dealers report relatively flat pricing over the last few months, as incentives programs have more than offset list price increases back in 4Q. The effect of the strong U.S. dollar on Canadian exchange rates has also played a part in pricing inflation within North America.

Industry Inventory Levels — New Equipment



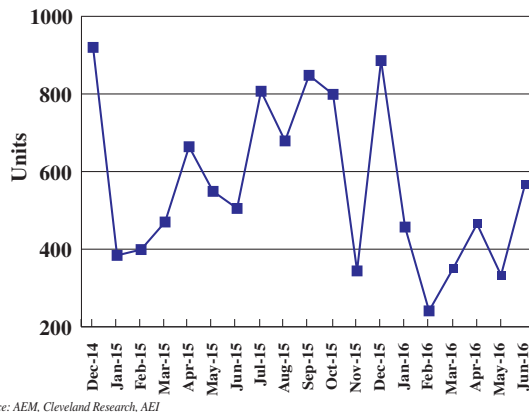
A net 44% of dealers reported new equipment inventories are "too high" (51% too high, 42% about right, 7% too low), flat compared to May and an average of 43% in 2Q vs. 47% in 1Q. This marks 22 months of new inventory levels being reported as "too high" by more than a net 30% of dealers.

North American Tractor Sales



Total North American tractor sales were down 1% year-over-year in June, with sales for <40 horsepower and utility tractors both up 1% year-over-year. Sales for row-crop tractors were down 18% and 4WD tractor sales were down 26%.

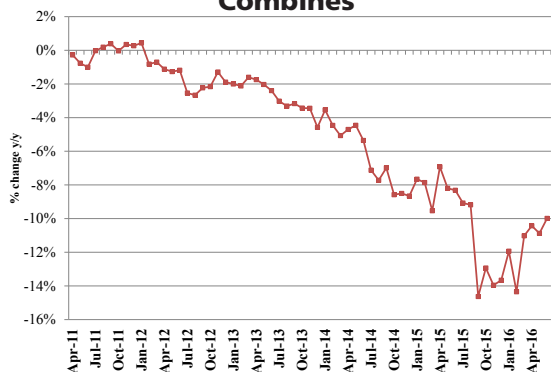
North American Combine Sales



North American combine sales came in at 567 units in June. On a year-over-year basis, combine sales were up 13%.

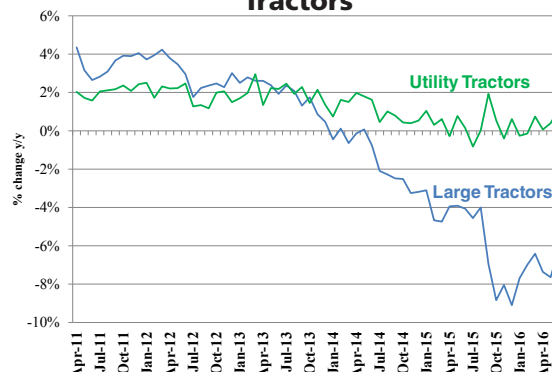
USED EQUIPMENT TRENDS

**Used Equipment Values vs. Last Year
Combines**



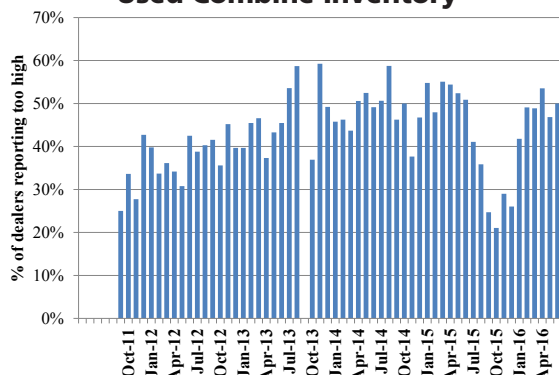
Used combine pricing was down 10% year-over-year in June, a slight improvement from the 11% decline in May.

**Used Equipment Values vs. Last Year
Tractors**



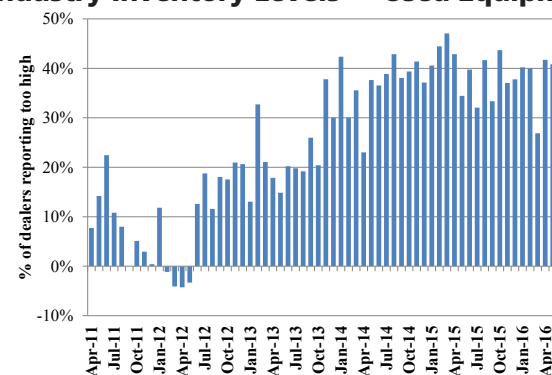
June saw a slight improvement in pricing for small tractors, in line with the past few months. Used tractors were reported down approximately 6% year-over-year on average, a slight improvement from the 8% drop reported in May.

Used Combine Inventory



Used combine inventory levels were reported as "too high" by a net 50% of dealers in June, compared to May's reading of 47% and April's 54%. Combine inventory appears to have reversed trend from 2H15, as inventory remains challenged.

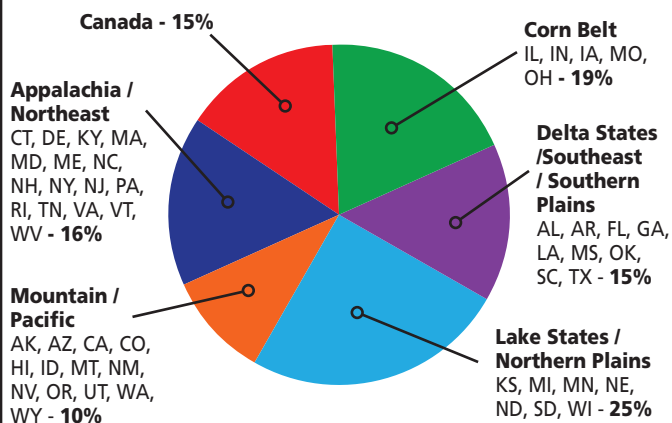
Industry Inventory Levels — Used Equipment



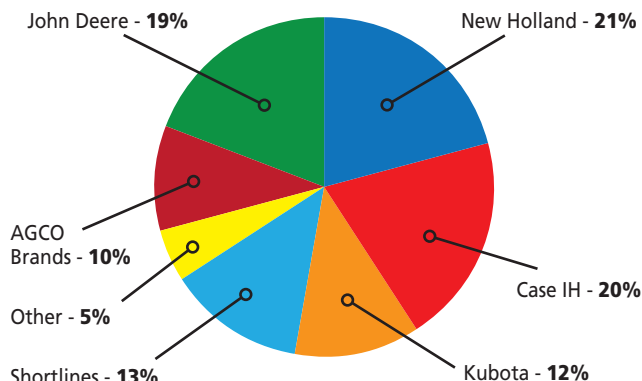
A net 46% of dealers reported used equipment inventory as "too high" (55% too high, 36% about right, 9% too low), worse than the 41% reporting heightened inventory in May (52% too high, 38% about right, 11% too low).

JULY 2016 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The July survey had about 175 respondents representing combined annual revenues of roughly \$8 billion, covering a broad cross section of geographies and brands.