

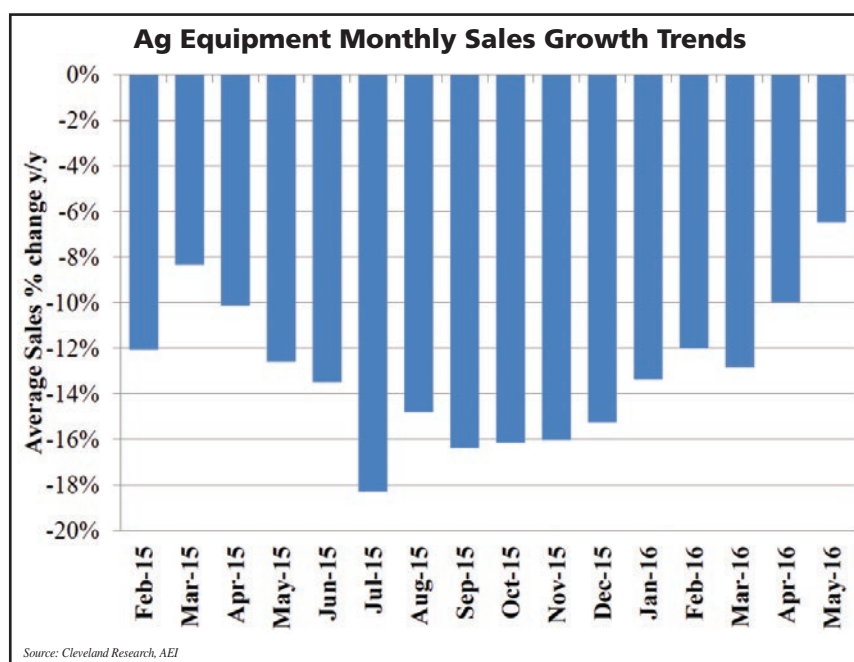
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 6% in May

- ✓ North American ag equipment dealers reported their sales, on average, were down 6% year-over-year in May, slightly better than the 10% decline the month before.
- ✓ A net 44% of dealers say their new equipment inventories are "too high," an increase from the net 41% in the previous month.
- ✓ Used equipment inventories were better in May, with a net 41% of dealers reporting inventory was "too high" vs. 42% the month prior.
- ✓ Dealers 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 8% year-over-year on average. Used combine prices were reported down 11%, a slight decline from the 10% decline reported in April.



Results vs. Expectations																
	Feb-15	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
Better than expected	13%	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%
In line with expectations	59%	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%
Worse than expected	28%	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%
Net % (Better - Worse)	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%

2016 Full-Year Outlook: Down 9%

- ✓ On average, dealers are forecasting 2016 sales to be down 9% year-over-year, better than their forecast from the month prior. A net 36% of dealers are forecasting a sales decline (25% increase, 15% about the same, 61% decline).
- ✓ Kubota dealers were the most optimistic, calling for flat sales for the year. Case IH dealers are calling for the largest drop in sales, forecasting a 23% decline.

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

Dealer Optimism Improves Again

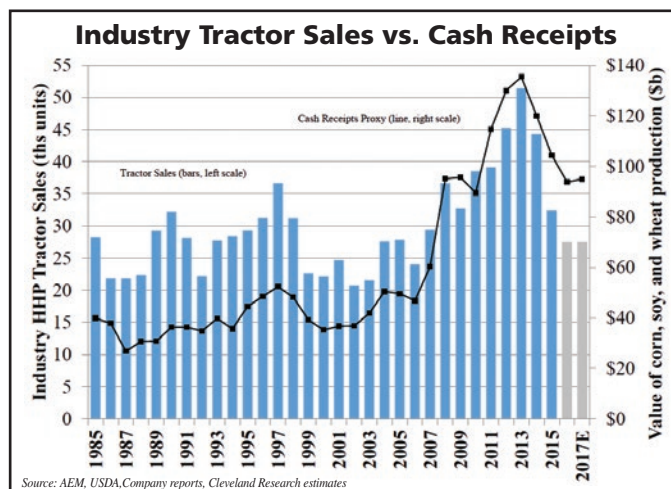
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 5% of dealers being less optimistic (22% more optimistic, 51% same and 27% less optimistic) in May, the best reading since 2014, reflecting the recent rise in grain prices.

Optimism/Sentiment vs. Last Month																
	Feb-15	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
More Optimistic	9%	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%
Same	50%	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%
Less Optimistic	41%	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%
Net % Dealer Optimism	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%

USDA Outlook for Cash Receipts

This chart illustrates the historical relationship between the value of U.S. corn, soybeans and wheat production compared to the annual industry sales of high horsepower tractors.

USDA's June crop report was slightly better than May, with our cash receipts proxy forecast up 1% year-over-year in 2016-17 vs. a projected 3% decline last month and a 10% decline in the 2015-16 crop season. The improved forecast resulted from higher average corn and soybean price estimates, as anticipated beginning stock levels decreased for both crops.



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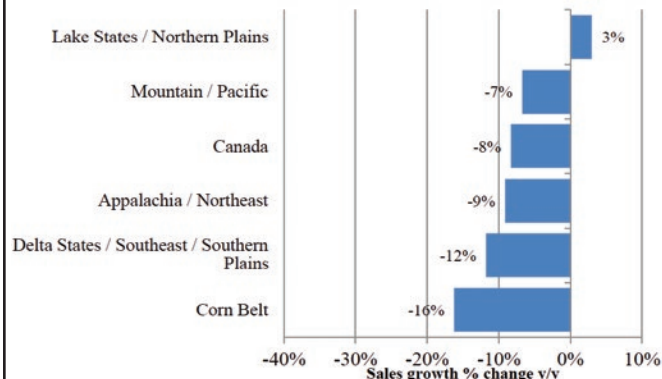
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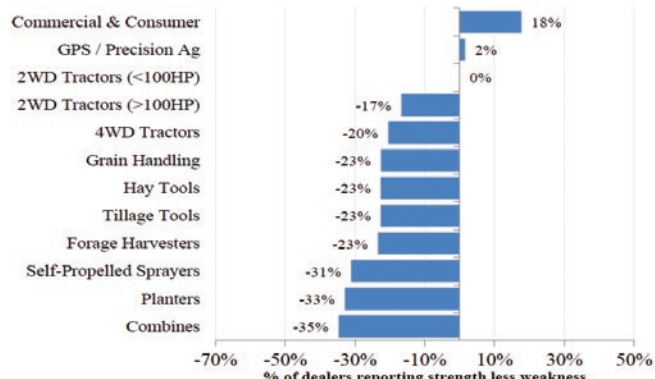
NEW EQUIPMENT TRENDS

Average Sales Growth by Region



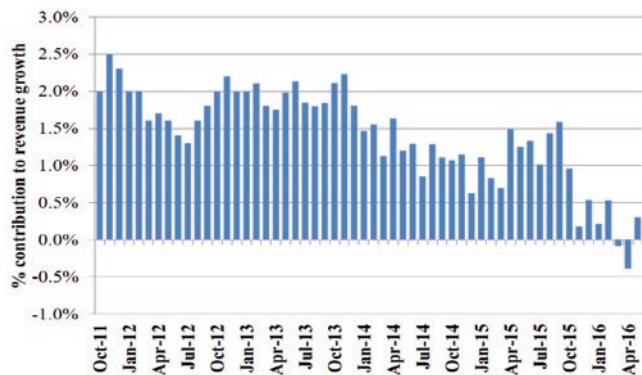
Sales were mixed by region in May with the Lake States and Northern Plains reporting low-single digit growth while all other regions remained in negative territory. The Corn Belt continued to show some of the most challenging sales trends, down over 15% year-to-year, inline with the past few months.

Equipment Category Sales Trends



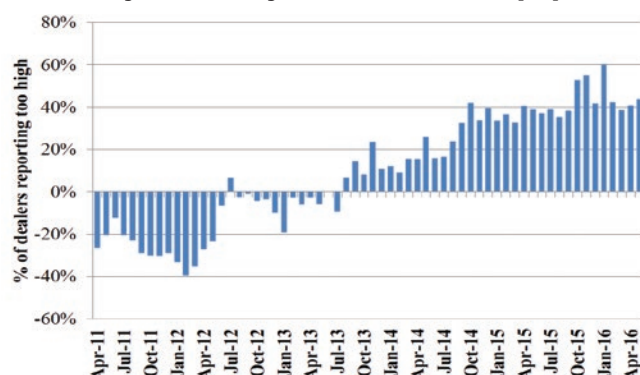
Commercial and consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters and sprayers in particular). We continue to see significant headwinds to large equipment sales.

Price Contribution to Sales



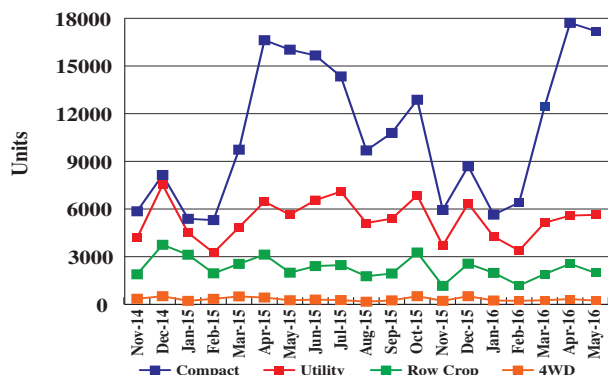
Dealers report relatively flat pricing over the last few months, as incentive programs have more than offset list price increases back in 4Q. The effect of the strong U.S. dollar on Canadian exchange rates has also played a part in pricing inflation within North America.

Industry Inventory Levels — New Equipment



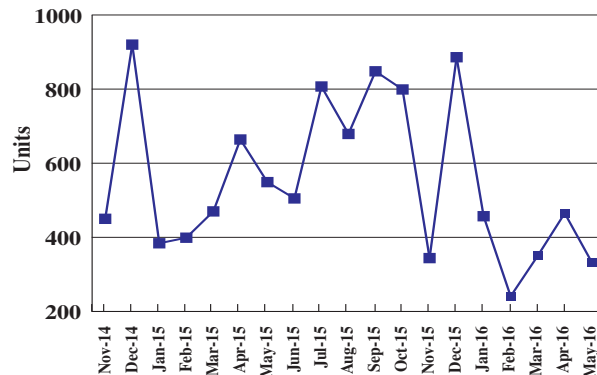
A net 44% of dealers reported new equipment inventories are "too high" (51% too high, 41% about right, 7% too low) vs. 41% (49% too high, 43% about right, 8% too low) in April and an average of 47% in 1Q. This marks 21 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

North American Tractor Sales



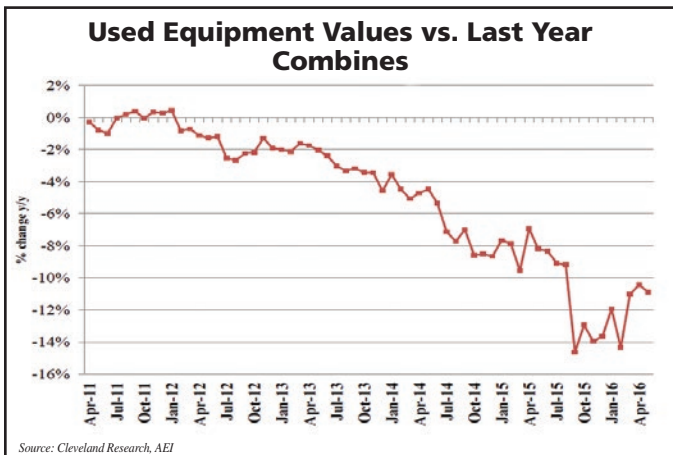
Total North American tractor sales were up 5% year-over-year in May, with sales for <40 horsepower tractors up 7% year-over-year and sales of utility tractors flat. Sales of row-crop tractors were down 1% and 4WD tractor sales were down 10%.

North American Combine Sales

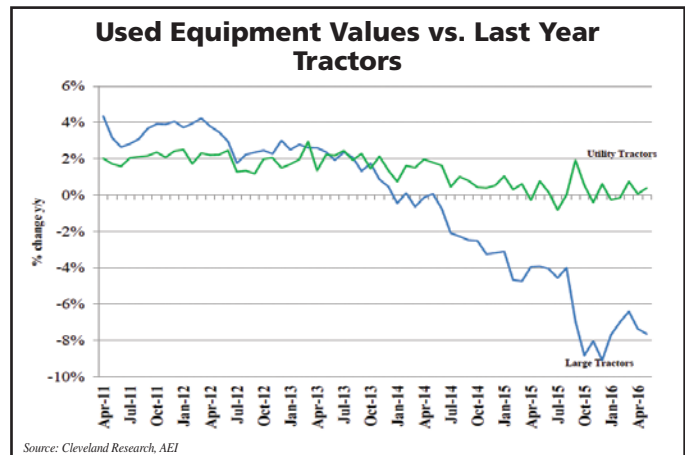


North American combine sales came in at 333 units in May. On a year-over-year basis, combine sales were down 39%.

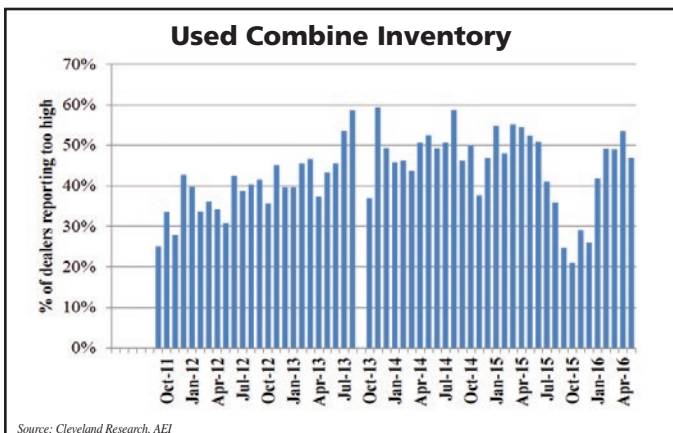
USED EQUIPMENT TRENDS



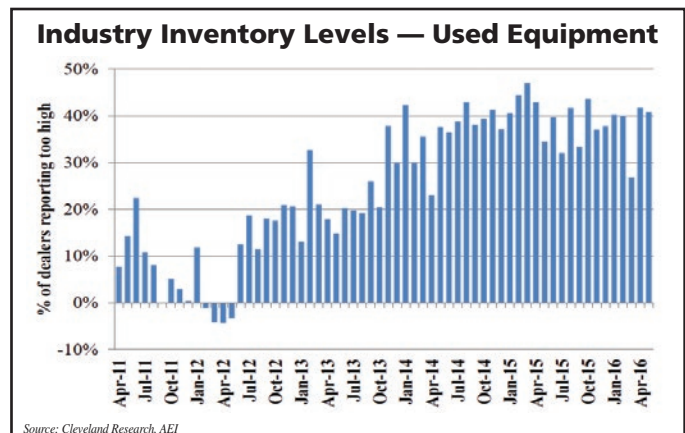
Used combine pricing was down 11% year-over-year in May, a slight decrease from the 10% decline in April.



May saw mostly flat pricing improvement for small tractors, which is inline with the past few months. On average, large tractor pricing was reported down 8% year-over-year, slightly below the 7% decline reported in April.

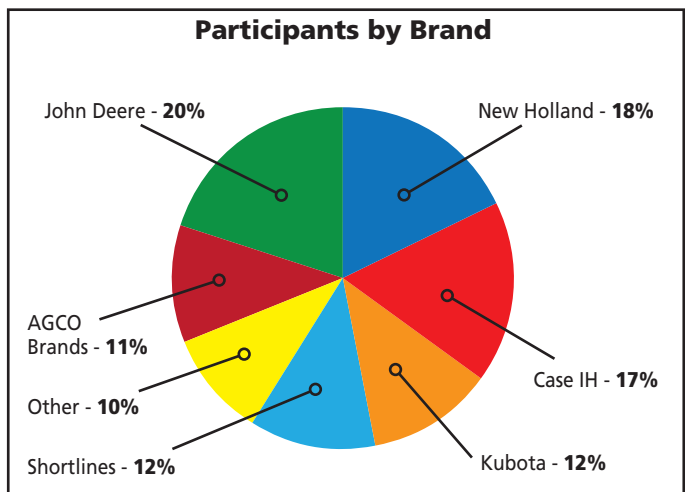
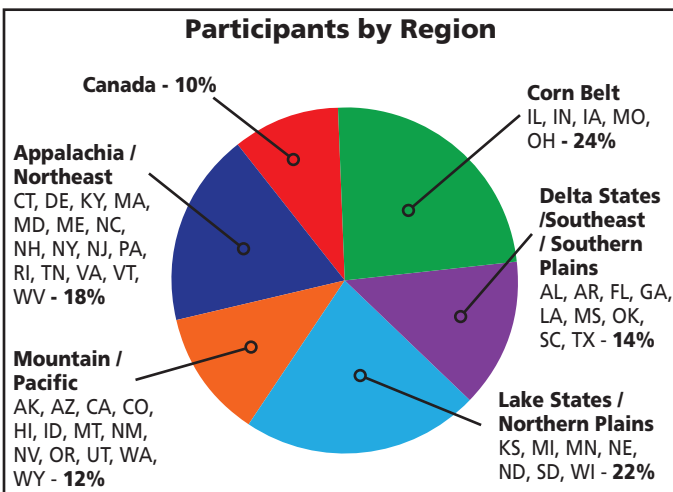


Used combine inventory levels were reported as "too high" by a net 47% of dealers in May, better than April's reading of 54% and March's 49%. Combine inventory appears to have reversed trend from 2H15, as inventory remains challenged.



A net 41% of dealers reported used equipment inventory as "too high" (52% too high, 38% about right, 11% too low), relatively inline with the 42% reporting excess inventory in April (50% too high, 42% about right, 8% too low).

JUNE 2016 SURVEY RESPONDENTS



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