

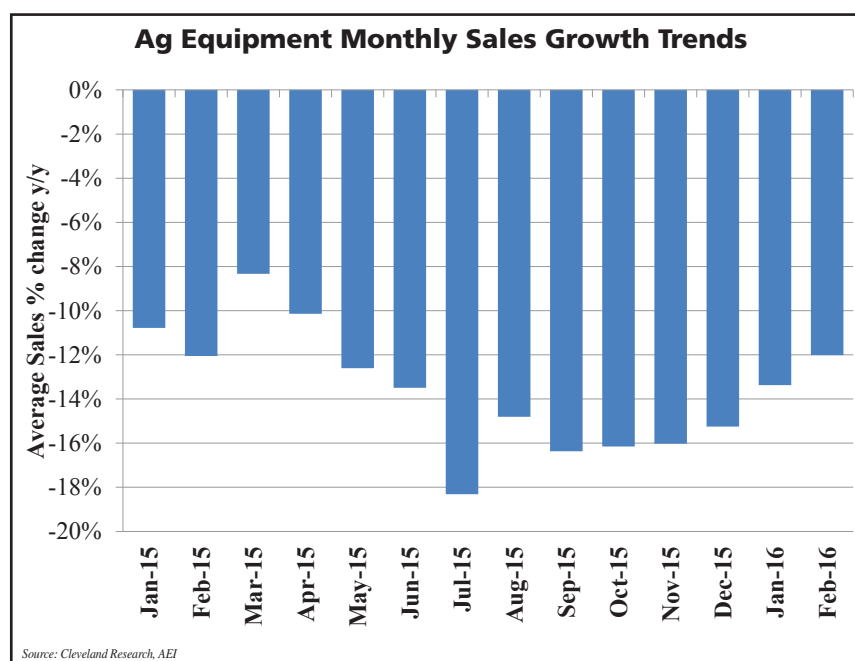
# Dealer Sentiment & Business Conditions Update

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

## EXECUTIVE SUMMARY

### Industry Sales Down 12% in February

- ✓ North American ag equipment dealers reported their sales, on average, were down 12% year-over-year in February, slightly better than the 13% decline the month before.
- ✓ A net 42% of dealers say their new equipment inventories are "too high," an improvement from the net 60% the previous month.
- ✓ Used equipment inventories for February were in line with January, with a net 40% of dealers reporting inventory was "too high."
- ✓ Dealers reported relatively flat new equipment pricing following a slight uptick in 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 7% year-over-year on average. Used combine prices were reported down 14%, a slight decline from the 12% drop reported in January.



Results vs. Expectations															
	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	Jan-16	Feb-16
Better than expected	29%	26%	13%	20%	27%	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%
In line with expectations	47%	57%	59%	50%	44%	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%
Worse than expected	23%	18%	28%	28%	29%	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%
Net % (Better - Worse)	6%	8%	-14%	-8%	-2%	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%

## 2016 Full-Year Outlook: Down 10%

- ✓ The average dealer sales forecast for 2016 is for a 10% drop, a slight improvement from the down 11% forecast the prior month. A net 42% (25% increase, 8% same, 67% decline) of dealers are forecasting a sales decline for the year.
- ✓ Kubota dealers were the only group to forecast a sales increase for 2016, calling for sales to be up 5%. Case IH dealers are calling for the largest drop in sales, forecasting a 15% decline.

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

## Dealer Optimism Improves Slightly

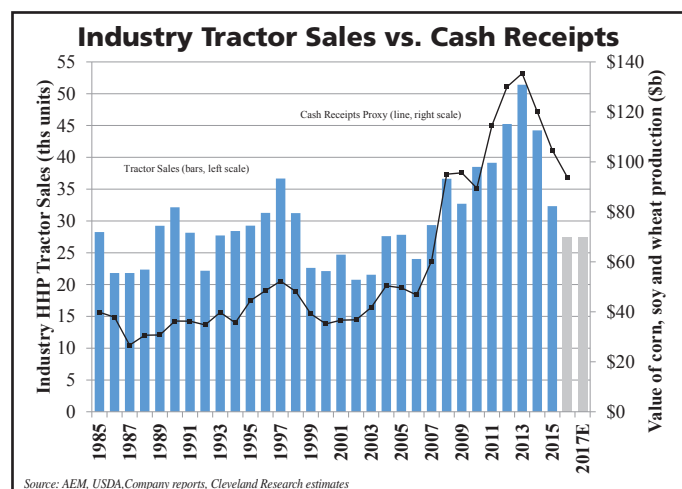
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 23% of dealers being less optimistic (13% more optimistic, 51% same and 36% less optimistic) in February compared to a net 32% who were less optimistic in January.

Optimism/Sentiment vs. Last Month															
	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	Jan-16	Feb-16
More Optimistic	12%	12%	9%	14%	14%	12%	13%	14%	11%	12%	8%	10%	8%	11%	13%
Same	39%	52%	50%	42%	47%	48%	58%	52%	45%	51%	60%	52%	48%	46%	51%
Less Optimistic	49%	36%	41%	43%	40%	40%	30%	35%	43%	37%	33%	38%	44%	43%	36%
Net % Dealer Optimism	-37%	-25%	-31%	-29%	-26%	-26%	-18%	-21%	-32%	-26%	-25%	-28%	-36%	-32%	-23%

## 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 March crop report was roughly in line with February, with our cash receipts proxy forecast down 10% year-over-year in 2015-16 compared to a decline of 13% in 2014-15.



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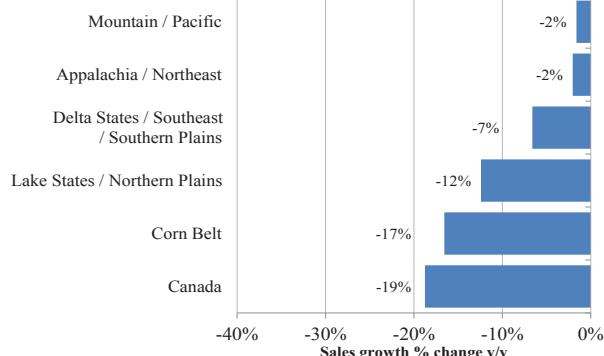
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# NEW EQUIPMENT TRENDS

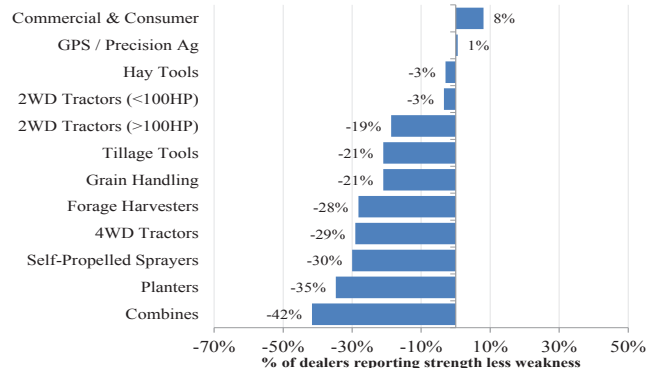
## Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends were down in all regions in February, with Canada showing the largest decline at down 19% year-over-year. The Lake/Northern Plains and Corn Belt also posted double digit declines. The Mountain/Pacific and Appalachia/Northeast regions had the strongest showings with declines of just 2%.

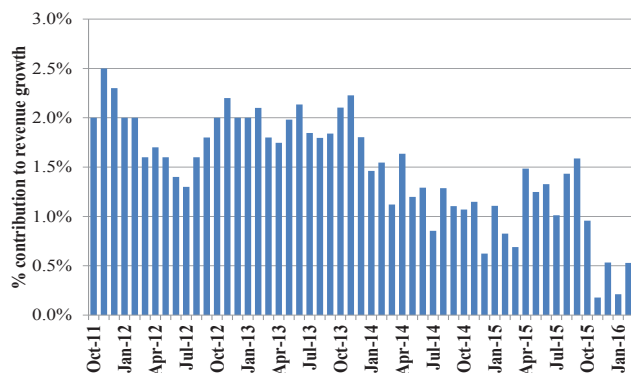
## Equipment Category Sales Trends



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). We continue to see significant headwinds to large equipment sales. Every category improved from January's readings except 4WD tractors.

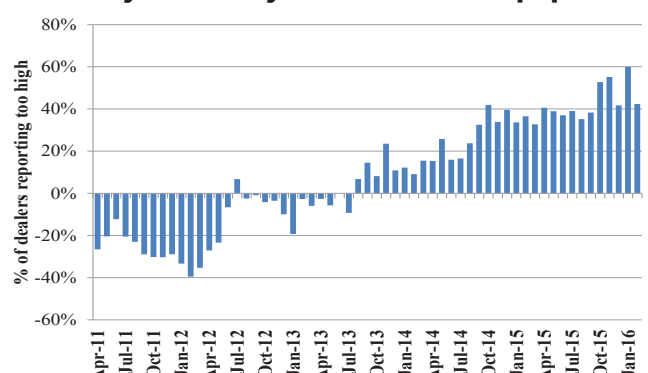
## Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report several OEMs pushed through small price increases in 4Q (0.5-1%), with respondents reporting pricing in February improved slightly at up 0.5% year-over-year. The effect of the strong U.S. dollar on Canadian exchange rates continues to play a part in pricing inflation within North America.

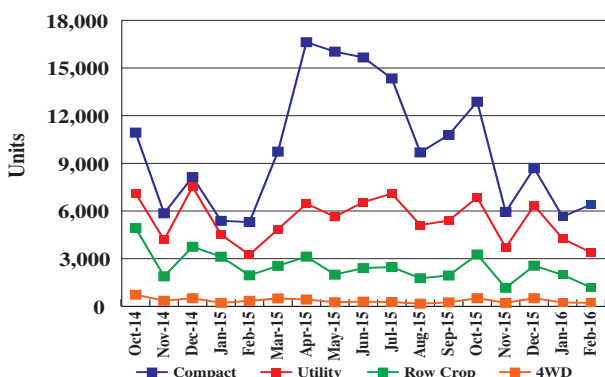
## Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 42% of dealers reported new equipment inventories are "too high" (47% too high, 48% about right, 5% too low) vs. 60% (62% too high, 36% about right, 2% too low) in January. This marks 18 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

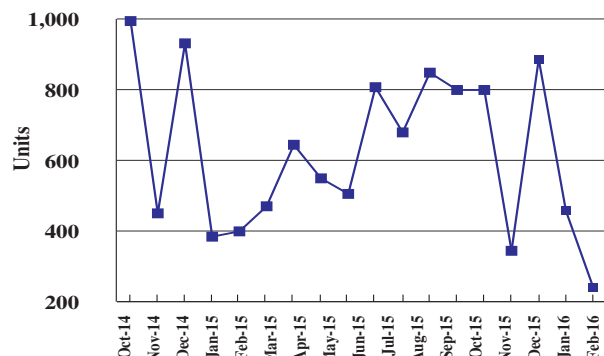
## North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were up 3% year-over-year in February, with row-crop tractors down 39% and 4WD tractors down 36%. Sales for <40 horsepower tractors were up 21% year-over-year and sales of utility tractors were up 4%.

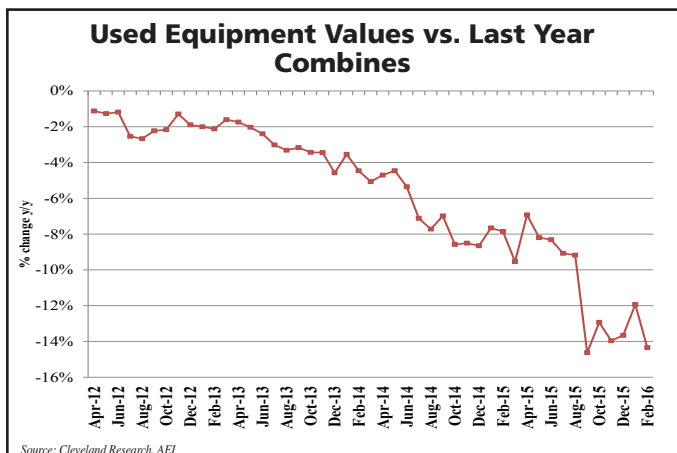
## North American Combine Sales



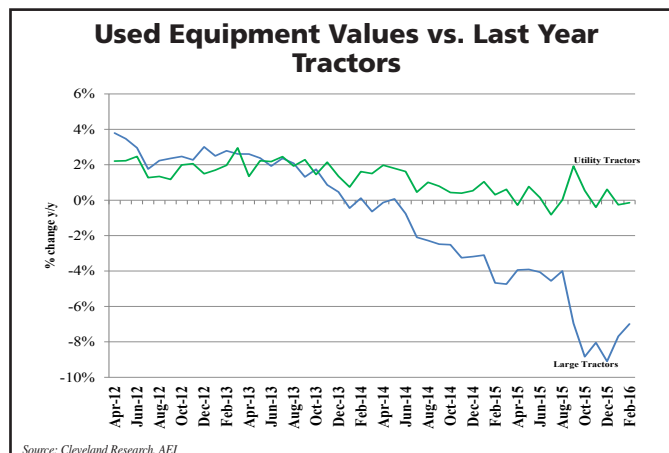
Source: AEM, Cleveland Research, AEI

North American combine sales came in at 241 units in February compared to 399 units in February 2015. On a year-over-year basis, combine sales were down almost 40%.

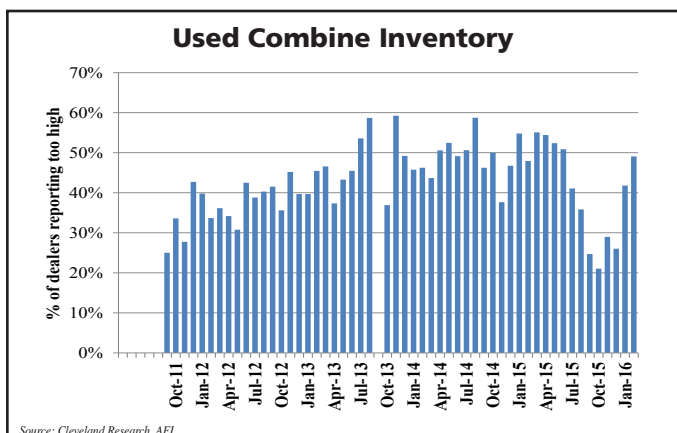
## USED EQUIPMENT TRENDS



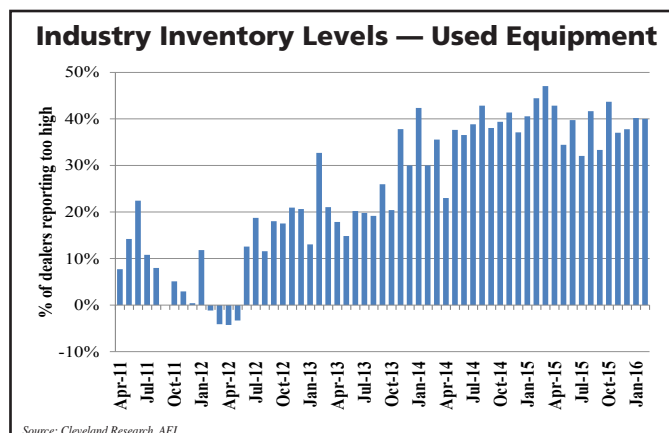
Used combine pricing was down 14% year-over-year, a slight decline from the 12% decrease reported in January.



February saw relatively flat pricing for small tractors, in line with the past few months. Large tractors were reported down 7% year-over-year on average, slightly better than the 8% decline reported in January, but in line with 4Q 2015.

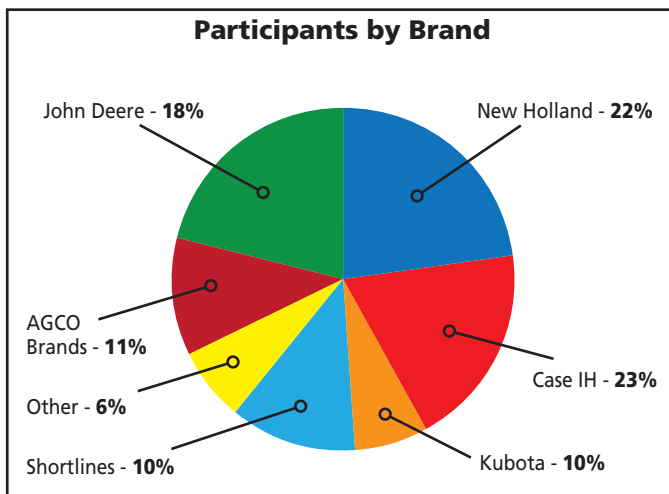
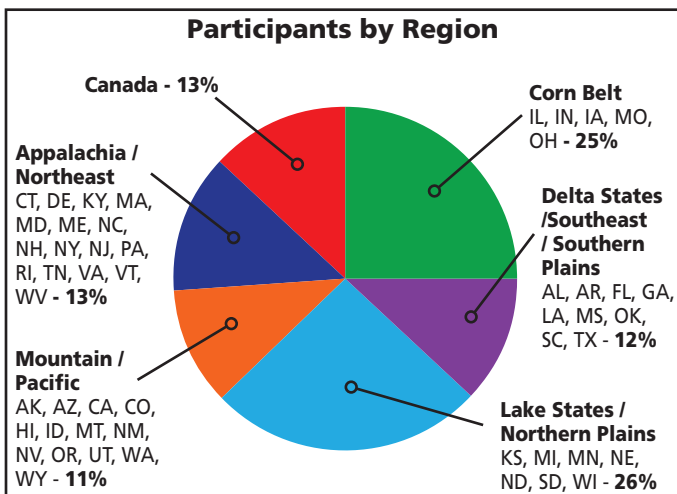


Used combine inventory remains "too high" with a net 49% of dealers reporting inventories above where they would like them, an increase from the net 42% reporting high inventory last month.



A net 40% of dealers reported used equipment inventory as "too high" (45% too high, 50% about right, 5% too low), in line with January (47% too high, 46% about right, 7% too low).

## MARCH 2016 SURVEY RESPONDENTS



The March survey had 102 respondents representing combined annual revenues of roughly \$4.1 billion, covering a broad cross section of geographies and brands.