

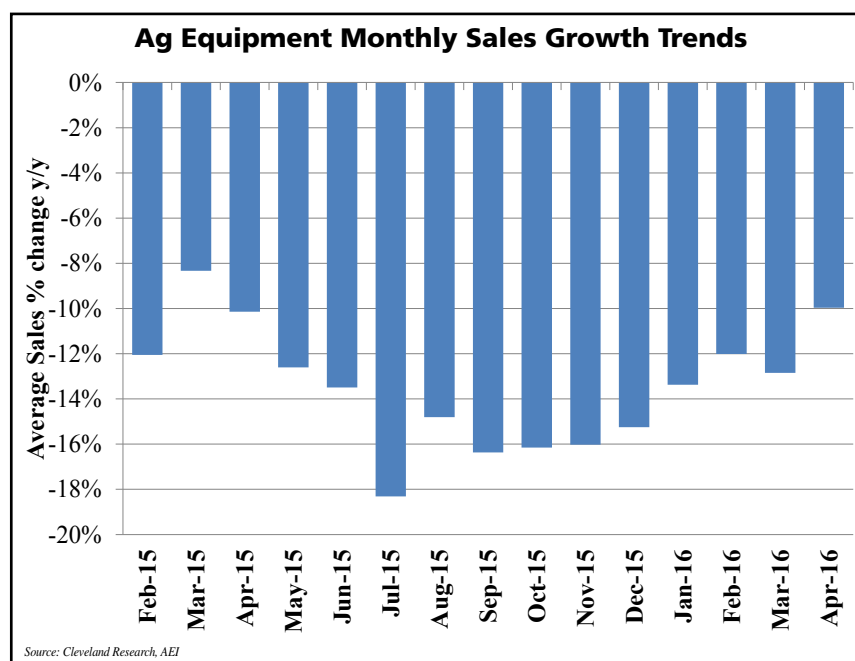
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 10% in April

- ✓ North American ag equipment dealers reported their sales, on average, were down 10% year-over-year in April, slightly better than the 13% decline the month before.
- ✓ A net 41% of dealers say their new equipment inventories are "too high," an increase from the net 39% the previous month.
- ✓ Used equipment inventories were worse in April, with a net 42% of dealers reporting inventory was "too high" vs. 27% 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 7% year-over-year on average. Used combine prices were reported down 10%, a slight improvement from the 11% decline reported the previous month.



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

2016 Full-Year Outlook: Down 11%

- ✓ On average, dealers are forecasting 2016 sales to be down 11% year-over-year, in line with their forecast from the month prior. A net 35% of dealers are forecasting a sales decline (23% increase, 20% about the same, 58% decline).
- ✓ Kubota dealers were once again the only group to forecast a sales increase for 2016, calling for sales to be up 2%. Shortlines dealers are calling for the largest drop in sales, forecasting a 24% decline.

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

Dealer Optimism Holds Steady

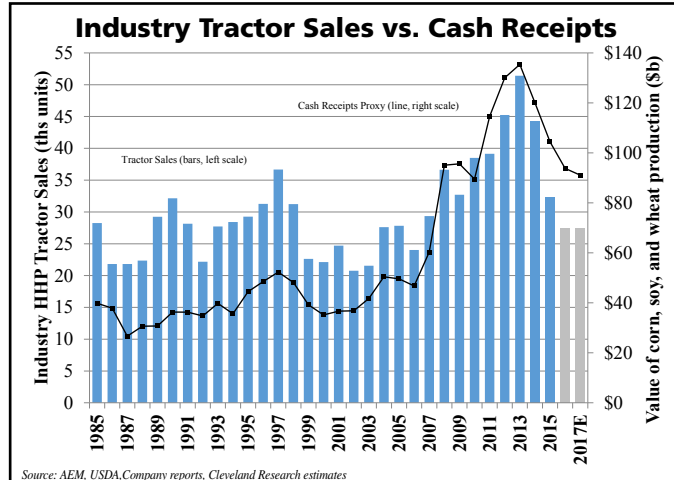
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 11% of dealers being less optimistic (15% more optimistic, 59% same and 26% less optimistic) in April, in line with March and an improvement from a net 24% who were less optimistic in February

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

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 April crop report was slightly better than April, with our cash receipts proxy forecast down 10% year-over-year in 2015-16 vs. a projected 11% decline last month and a 13% decline in the 2014-15 crop season. The improved forecast resulted from higher average corn and soybean price estimates, as anticipated usage improved for both crops. Initial 2016-17 crop forecasts indicate cash receipts will be down 3% year-over-year.



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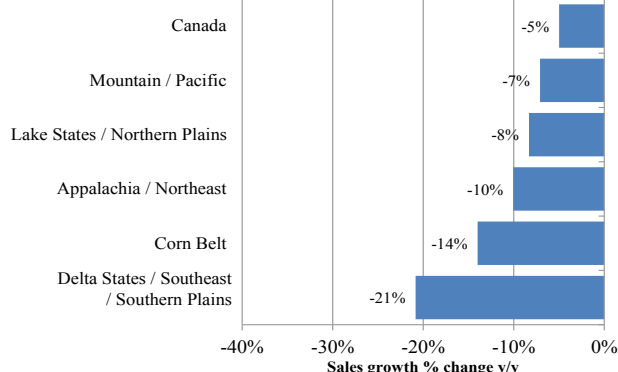
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NEW EQUIPMENT TRENDS

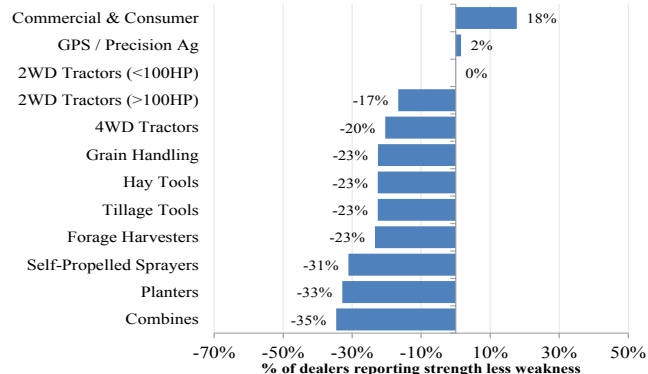
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales were down in most regions in April with Canada being reported as the strongest at only down 5%. The Delta States/Southeast/Southern Plains reported weak sales, following mild growth in March. This region showed the greatest change in the month falling 21% year-over-year after growing 6% in March.

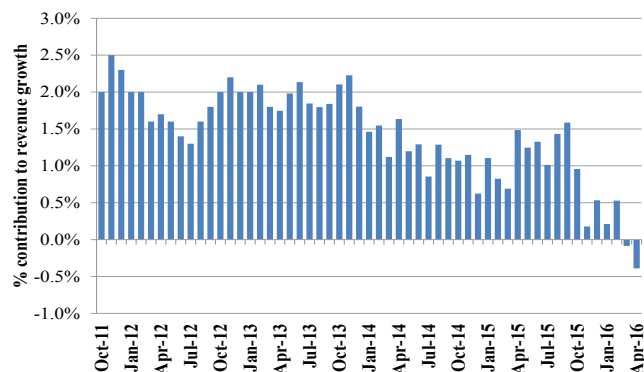
Equipment Category Sales Trends



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.

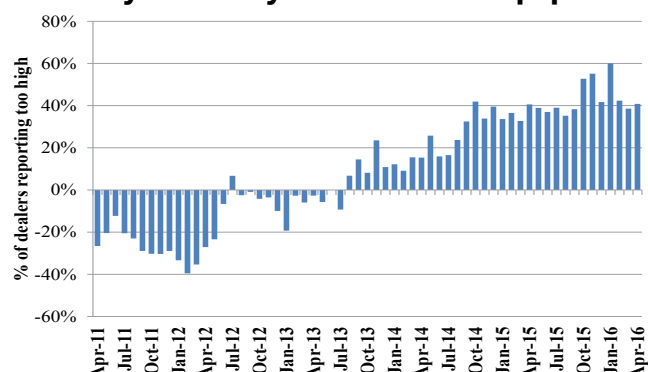
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers report several OEMs pushed through small price increases in 4Q (0.5-1%), with respondents reporting slight pricing declines in the past 2 months. The effect of the strong U.S. dollar on Canadian exchange rates continues to play a part in pricing inflation within North America.

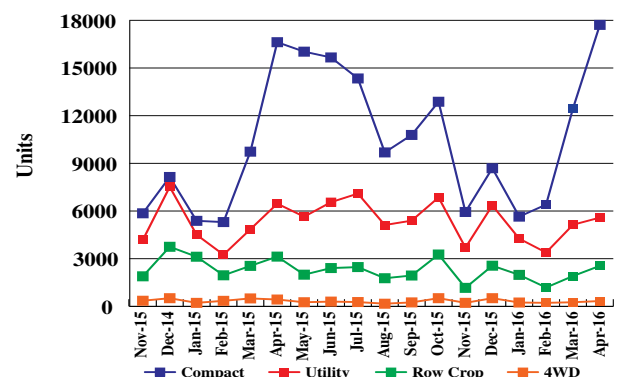
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 41% of dealers reported new equipment inventories are "too high" (49% too high, 43% about right, 8% too low) vs. 38% (45% too high, 48% about right, 7% too low) in March and an average of 47% in 1Q. This marks 20 months of new inventory levels reported as "too high" by more than a net 30% of dealers.

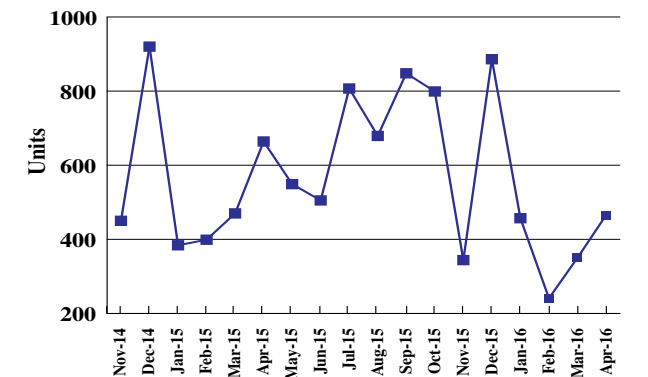
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were down 2% year-over-year in April, with sales for <40 horsepower tractors up 7% year-over-year and sales of utility tractors down 14%. Sales for row-crop tractors were down 19% and 4WD tractor sales were down 22%.

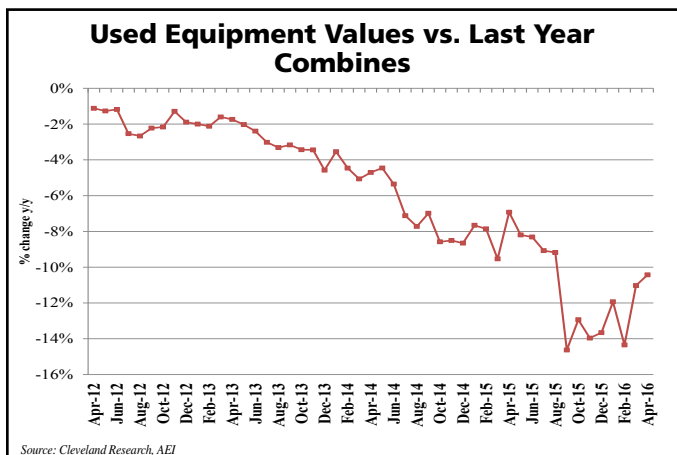
North American Combine Sales



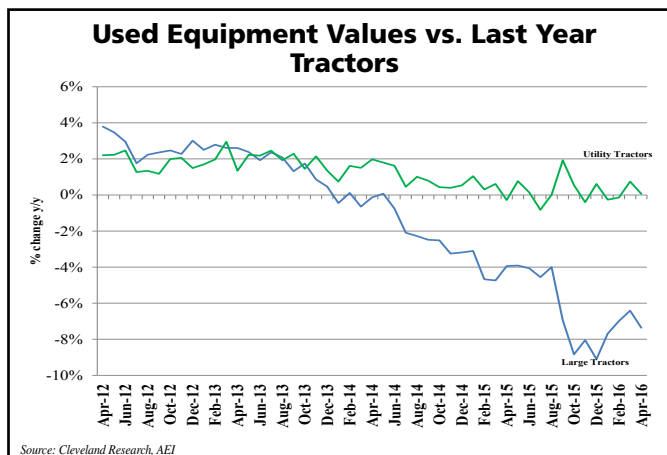
Source: AEM, Cleveland Research, AEI

North American combine sales came in at 465 units in April compared to 664 units in April 2015. On a year-over-year basis, combine sales were down 30%.

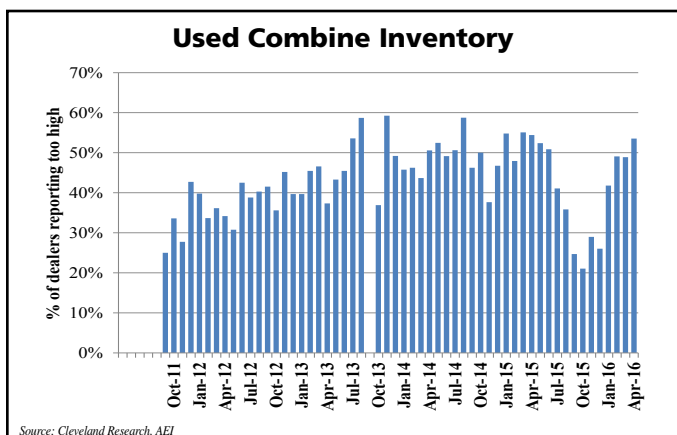
USED EQUIPMENT TRENDS



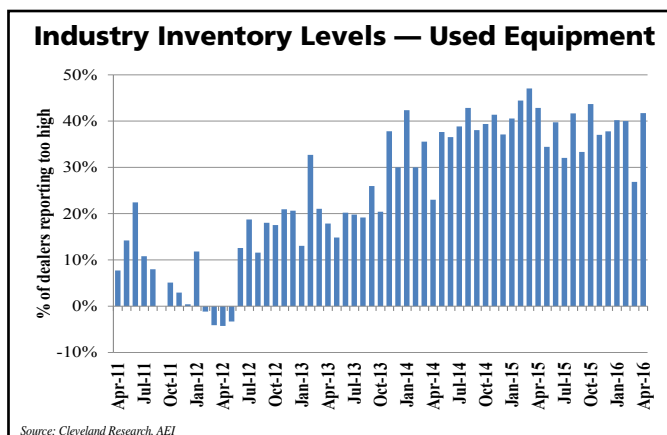
Used combine pricing was down 10% year-over-year in April, an improvement from the prior few months.



April saw mostly flat pricing improvement for small tractors, which is in line with the past few months. On average, large tractor pricing was reported down 7% year-over-year, slightly below the 6% decline reported the month prior.

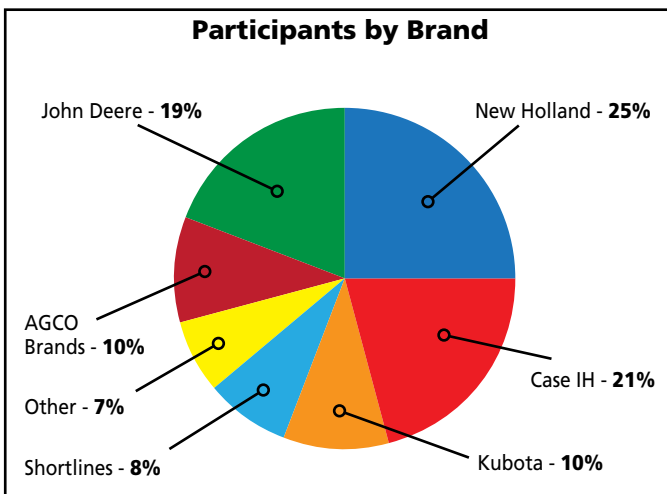
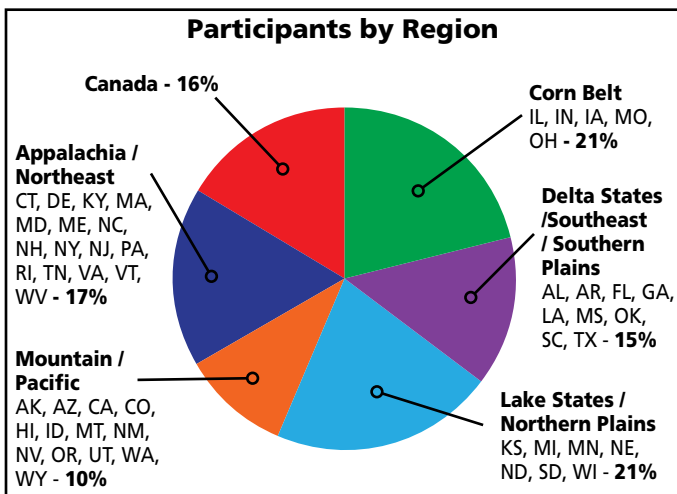


Used combine inventory levels were reported as "too high" by a net 54% of dealers in April, worse than March and February's 49%. Combine inventory appears to have reversed trend from 2H15, as inventory remains challenged vs. the modest improvements seen in overall used equipment levels.



A net 42% of dealers reported used equipment inventory as "too high" (50% too high, 42% about right, 8% too low), worse than the 27% reporting excess inventory during the previous month (39% too high, 48% about right, 12% too low).

MAY 2016 SURVEY RESPONDENTS



The May survey had about 200 respondents representing combined annual revenues of roughly \$8 billion, covering a broad cross section of geographies and brands.