

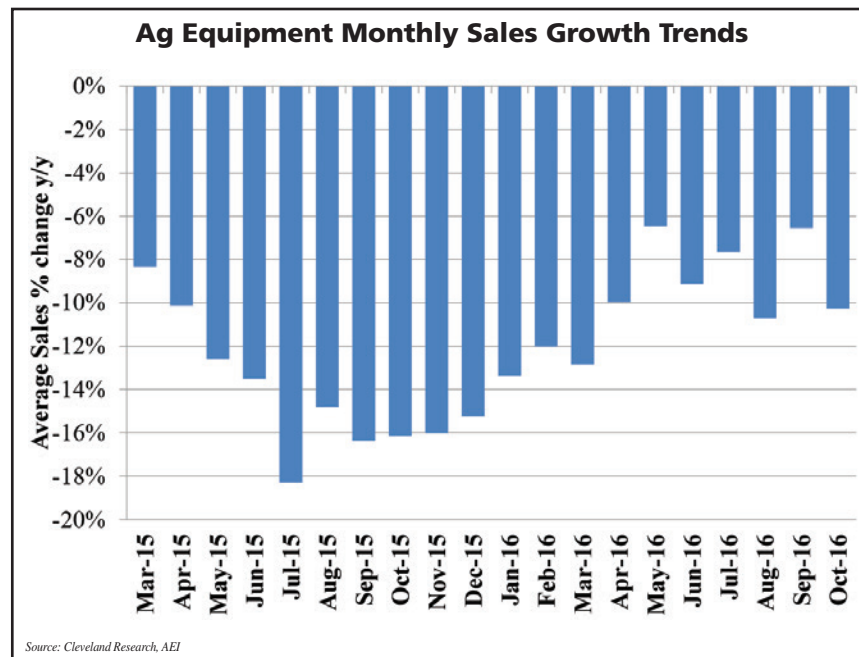
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Decline 10% in October

- ✓ Average North American dealer sales were down 10% year-over-year in October vs. the 7% decline reported in September.
- ✓ A net 45% of dealers reported their new equipment inventories are "too high," slightly higher than the 42-43% they've reported during the past few months.
- ✓ A higher percentage of dealers (47%) reported their used equipment inventories were up compared to the previous month when 38% said they were "too high."
- ✓ There was little or no change in new equipment pricing during the past month. Prices on used large tractors were reported down 8% year-over-year on average, up from the 7% reported during the previous month. Used combine pricing was down 12% year-over-year vs. down 11% in September.



Results vs. Expectations																		
	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	Jul-16	Aug-16	Sep-16	Oct-16
Better than expected	23%	21%	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%	14%	14%	16%
In line with expectations	39%	48%	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%	44%	44%	40%
Worse than expected	36%	31%	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%	41%	42%	44%
Net % (Better - Worse)	-13%	-10%	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-28%	-27%	-28%	-28%

2016 Full-Year Outlook: Sales Down 11%

- ✓ Dealers forecast full-year 2016 sales to be down 11% year-over-year, slightly better than September's forecast of down 12%. A net 53% of dealers are forecasting a sales decline (18% increase, 11% about the same, 71% decline).
- ✓ Despite anticipating only flat (0%) sales for the full-year 2016, Kubota dealers were once again the most optimistic of all the dealership groups.
- ✓ An improved outlook for crop receipts improved dealers' average forecast for 2017 to down 5% vs. down 8% from the previous survey.

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

Dealer Optimism Slips Slightly

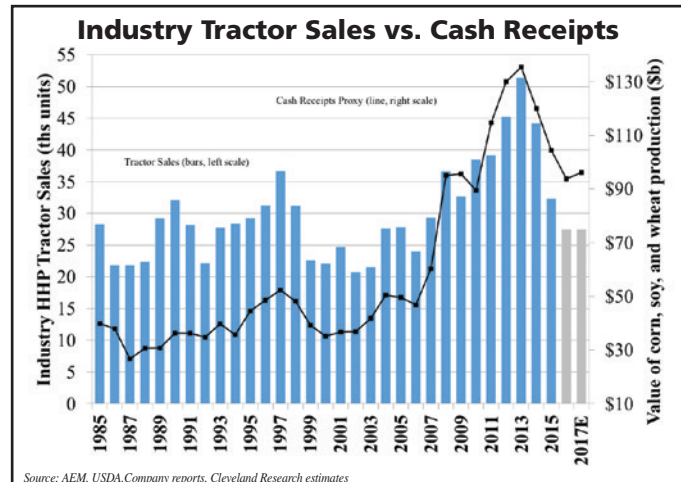
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 21% of dealers being less optimistic (13% more optimistic, 53% same and 34% less optimistic) in October compared to a net 24% who were less optimistic in September.

Optimism/Sentiment vs. Last Month																	
	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
More Optimistic	13%	14%	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%	11%	14%	13%
Same	58%	52%	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%	52%	49%	53%
Less Optimistic	30%	35%	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%	36%	38%	34%
Net % Dealer Optimism	-18%	-21%	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%	-24%	-21%

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 powered (>100 HP) tractors.

USDA's November crop report was better than October, with the cash receipts proxy forecast up 5% year-over-year in 2016-17 vs. the prior estimate of up 2%. Corn yield forecasts improved to 175 from October's forecast of 173 bushels/acre. Corn and soybean price forecasts increased 2% from October's estimate, while wheat pricing was flat.



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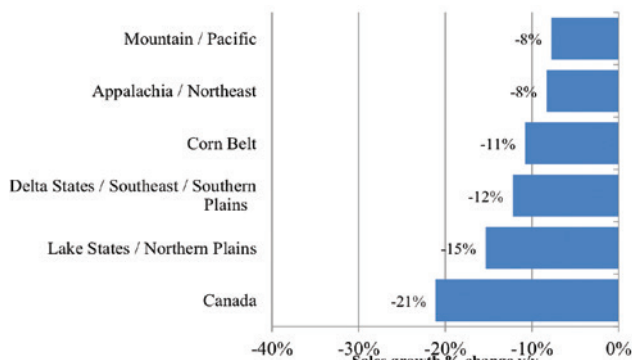
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NEW EQUIPMENT TRENDS

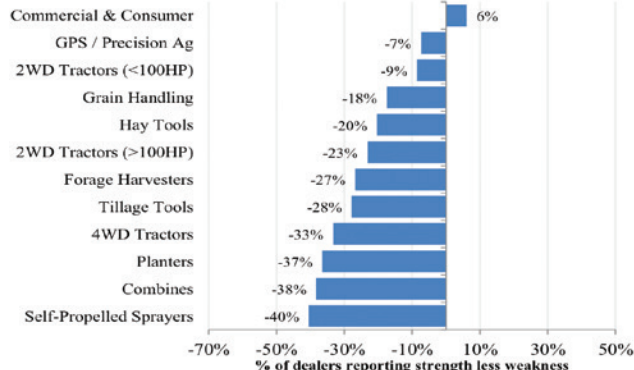
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends by region were negative overall in the month, as further declines were noted across all regions except the Corn Belt. Canada showed the largest sequential decline in the month (-21%).

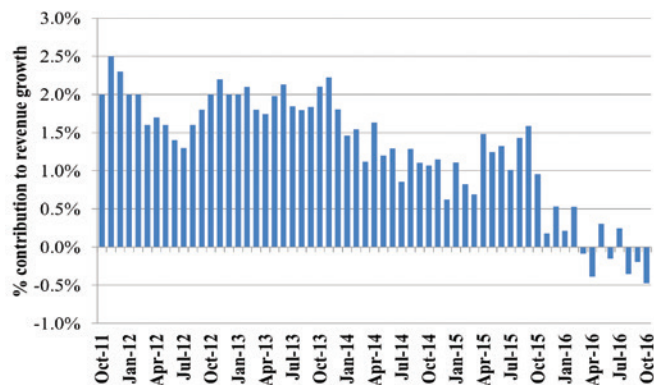
Equipment Category Sales Trends



Source: Farm Equipment Magazine Survey

Commercial & consumer lawn equipment is the only equipment group to show growth, while all other major categories continue to struggle for sales. While sales of GPS/precision farming equipment had shown strength in the first half of 2016, trends have deteriorated over the past few months.

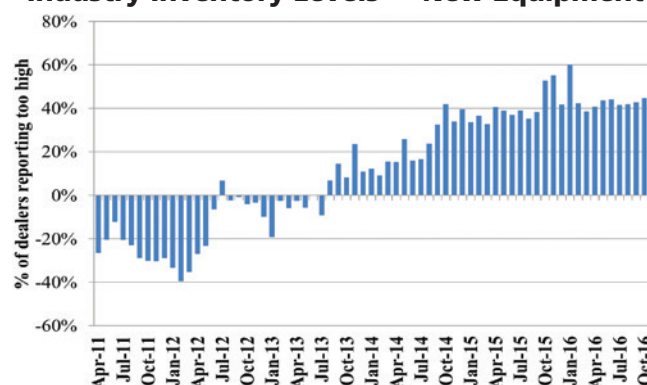
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers continue to report flat pricing as they have for much 2016. Generally, dealers say most incentives are offset by discounting needed to sell new equipment.

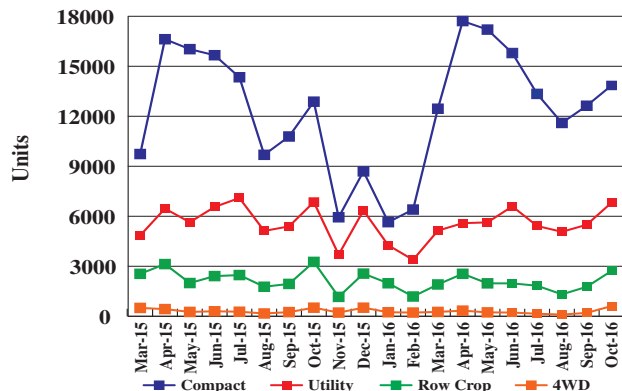
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 45% of dealers reported new equipment inventories are "too high" (49% too high, 46% about right, 4% too low), more than September when a net 43% of dealers reported inventories were "too high."

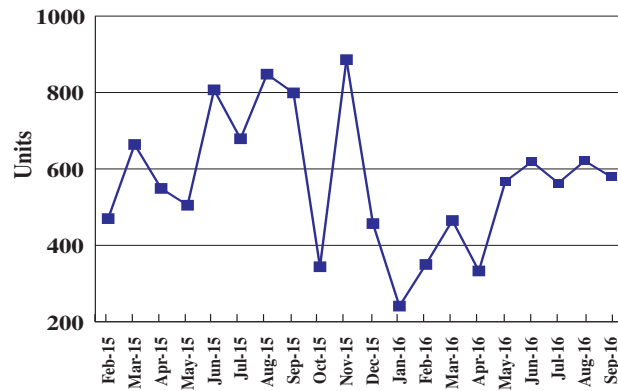
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were up 2% year-over-year in October vs. a year ago on the strength of compact tractor sales. Year-to-date, total tractor sales for the U.S. and Canada are up 1%.

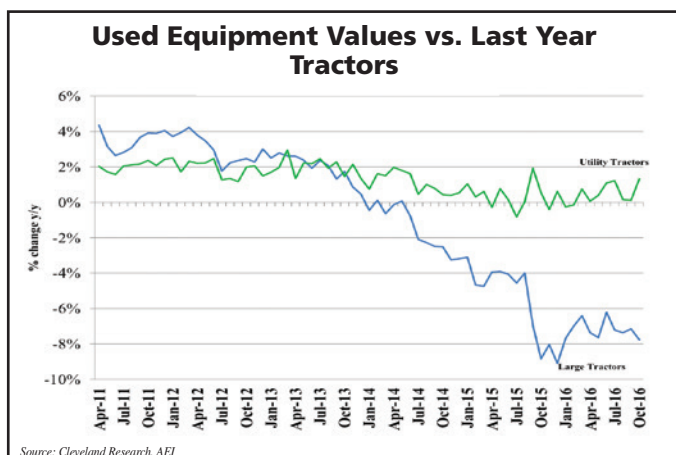
North American Combine Sales



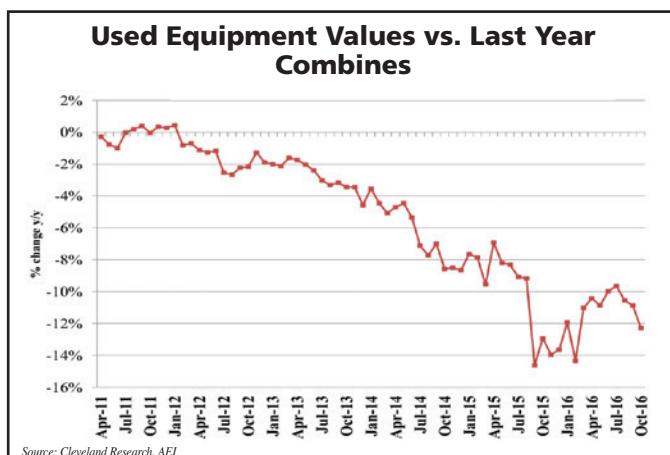
Source: AEM, Cleveland Research, AEI

Total North American combine sales declined 27% in October vs. October of the previous year. Year-to-date sales of combines in the U.S. and Canada are down by nearly 22%.

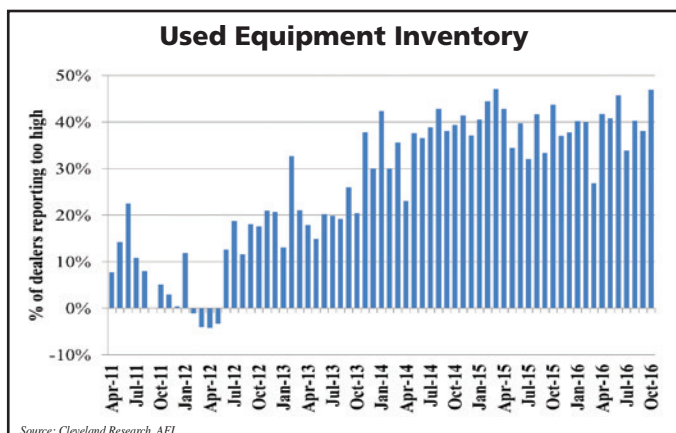
USED EQUIPMENT TRENDS



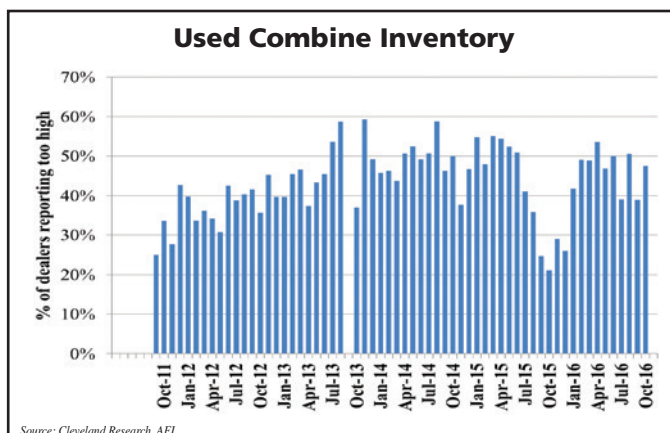
Pricing on used high horsepower tractors was down an average of 8% in October vs. 7% in September. Pricing trends improved slightly for the smaller equipment.



Used combine pricing was down 12% year-over-year in October compared to an 11% decline in September.

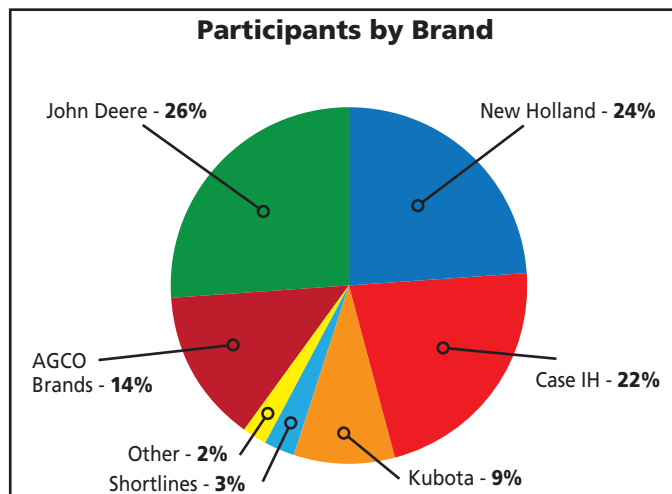
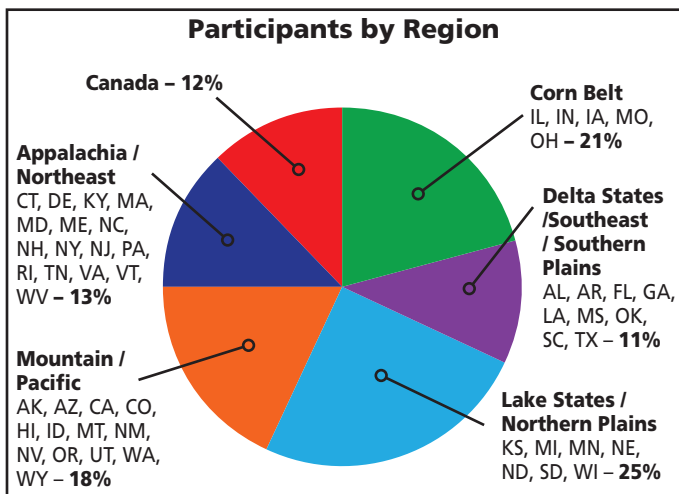


A net 47% of dealers reported used equipment inventory as "too high" (52% too high, 42% about right, 5% too low), up from 38% reporting inventory was "too high" in September (46% too high, 46% about right, 8% too low).



Used combine inventory levels were reported as "too high" by a net 48% of dealers in October, compared to September's reading of 39% "too high" and August's reading of 51% "too high."

NOVEMBER 2016 SURVEY RESPONDENTS



The November survey had about 120 respondents representing combined annual revenues of roughly \$6 billion. By brand, 26% of respondents were John Deere dealers, 24% New Holland, 22% Case IH and 14% AGCO dealers.