

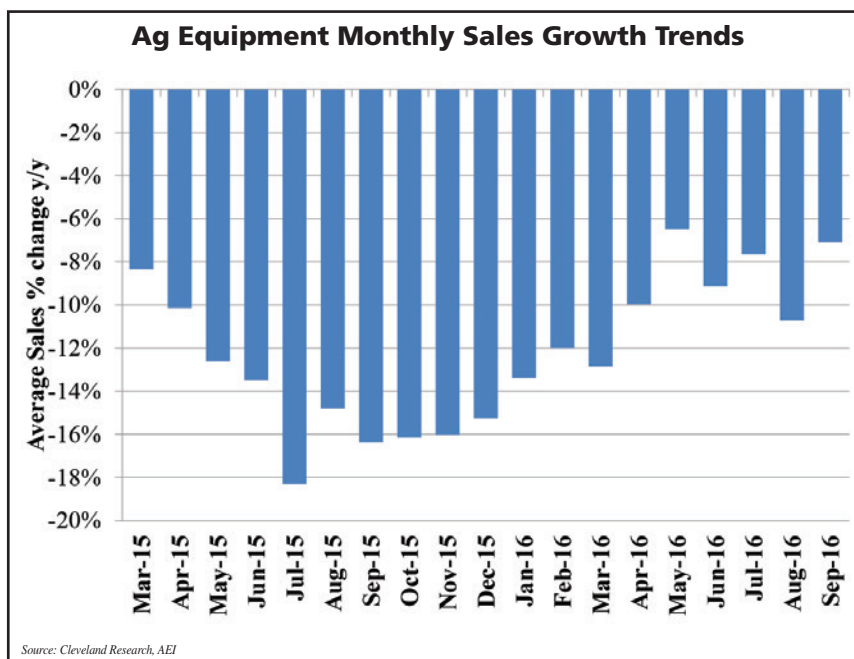
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 7% in September

- ✓ North American ag equipment dealers reported their sales, on average, were down 7% year-over-year in September vs. the 11% decline reported for August.
- ✓ A net 43% of dealers say their new equipment inventories are "too high," inline with the month prior.
- ✓ Used equipment inventory levels were slightly lower than in August, as a net 38% of dealers reported inventory as "too high" vs. 40% the previous month.
- ✓ Dealers reported relatively flat new equipment pricing as OEM price increases have been offset by greater discounting at the dealer level. Used tractors were reported down 7% year-over-year on average, slightly better than the 8% reported in August. Used combine pricing was down 11% year-over-year, inline with the prior month.



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

2016 Full-Year Outlook: Down 12%

- ✓ Dealers forecast 2016 sales to be down 12% year-over-year, better than August's forecast of down 15%. A net 48% of dealers are forecasting a sales decline (20% increase, 15% about the same, 68% decline).
- ✓ The 2017 sales growth forecast was reported at down 8% on average, worse than last month's forecast of down 3%.
- ✓ Kubota dealers were once again the only group forecasting growth, expecting sales to increase 2%. AGCO dealers were the least optimistic, forecasting sales to be down 20%.

(% 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
AGCO	-7%	-9%	-10%	-6%	-15%	-6%	-7%	-8%	-14%	-17%	-20%
John Deere	-9%	-8%	-12%	-10%	-12%	-10%	-6%	-11%	-15%	-14%	-12%
New Holland	-9%	-13%	-6%	-11%	-12%	-8%	-2%	-11%	-14%	-21%	-18%
Case IH	-10%	-10%	-12%	-15%	-11%	-15%	-23%	-11%	-15%	-15%	-9%
Kubota	4%	2%	-7%	5%	9%	2%	0%	1%	7%	2%	2%
Shortlines/Other	-8%	-6%	-12%	0%	-14%	-24%	-6%	-4%	11%	-26%	-12%
Overall	-9%	-9%	-11%	-10%	-11%	-11%	-9%	-10%	-12%	-15%	-12%

Dealer Optimism Drops Slightly

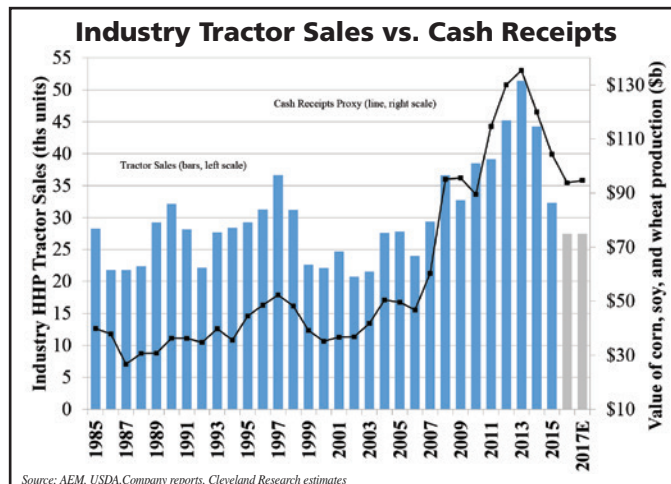
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 24% of dealers being less optimistic (14% more optimistic, 49% same and 38% less optimistic) in September compared to a net 25% who were less optimistic in August.

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

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 October crop report was slightly better than September, with cash receipts proxy forecast up 2% year-over-year in 2016-17 vs. prior estimate of up 1%. Declines on corn yields fell from September's forecast of 174 to 173 bushels per acre. Corn and wheat price forecasts increased 2-3%, while soybean pricing was flat.



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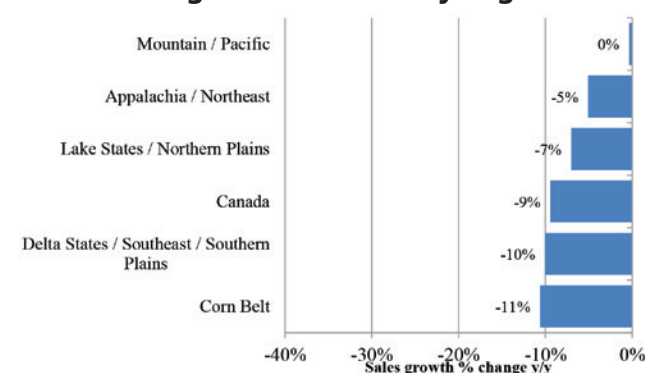
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NEW EQUIPMENT TRENDS

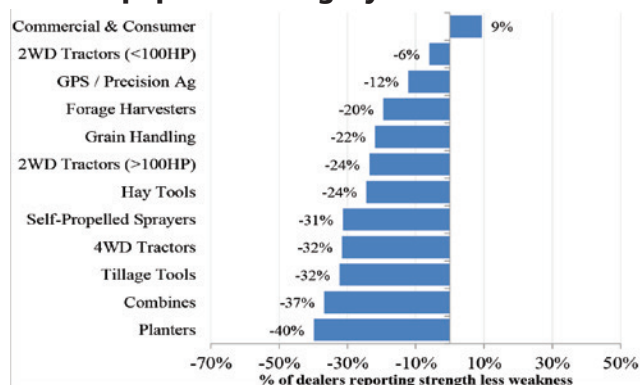
Average Sales Growth by Region



Source: Farm Equipment Magazine Survey

Sales trends by region were negative overall in the month, but sequential improvement was noted across all regions. The Lake States/Northern Plains showed the largest sequential improvement in the month.

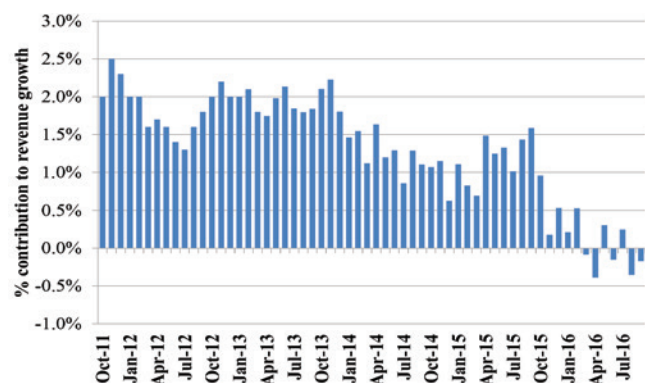
Equipment Category Sales Trends



Source: Farm Equipment Magazine Survey

Commercial & consumer lawn equipment continues to show strength in contrast to declines in other categories (combines, planters, tillage tools and sprayers in particular). While GPS/Precision Ag equipment had seen strength in the 1H16, trends have deteriorated over the past few months.

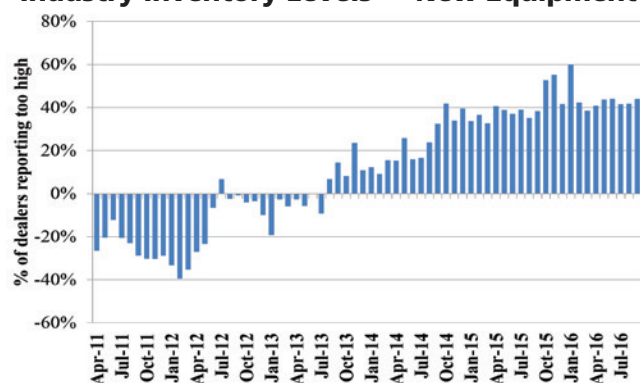
Price Contribution to Sales



Source: Cleveland Research Company Surveys

Dealers reported relatively flat pricing over the last few months as incentives programs have more than offset list price increases back in 4Q15. The effect of the strong U.S. dollar on Canadian exchange rates has also played a part in pricing inflation within North America.

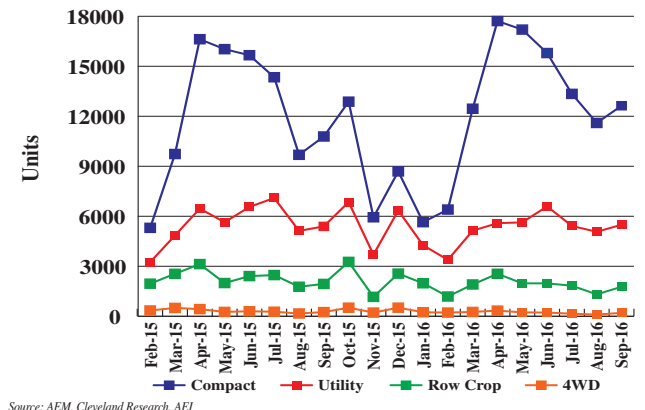
Industry Inventory Levels — New Equipment



Source: Farm Equipment Magazine Survey

A net 43% of dealers reported new equipment inventories are "too high" (50% too high, 43% about right, 7% too low), a slightly worse reading than August's net 42% of dealers reporting inventories were reported "too high." New inventory levels have been reported as "too high" for nearly 3 years.

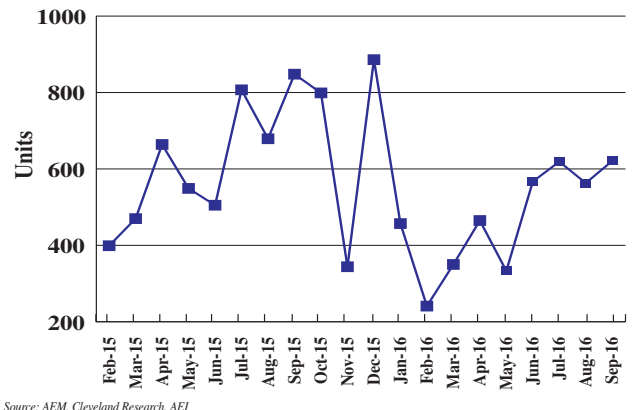
North American Tractor Sales



Source: AEM, Cleveland Research, AEI

Total North American tractor sales were up 9% year-over-year in September, largely due to increasing sales for <40 horsepower and utility tractors. Row-crop tractor sales were down 9% year-over-year for the month.

North American Combine Sales

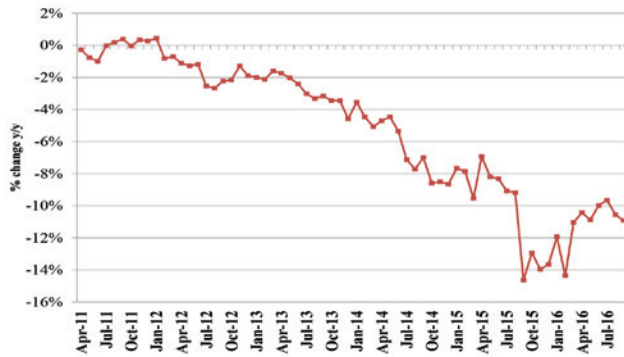


Source: AEM, Cleveland Research, AEI

North American combine sales came in at 621 units in September. On a year-over-year basis, combine sales were down 27%.

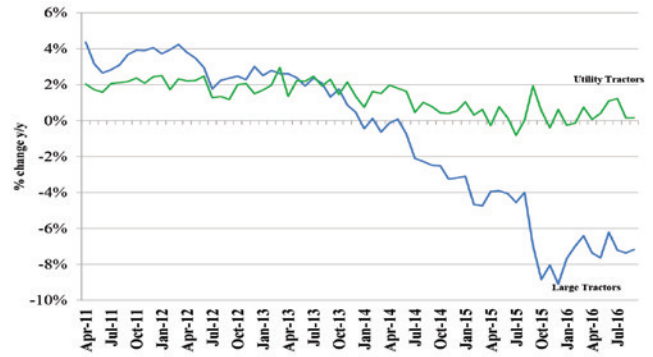
USED EQUIPMENT TRENDS

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



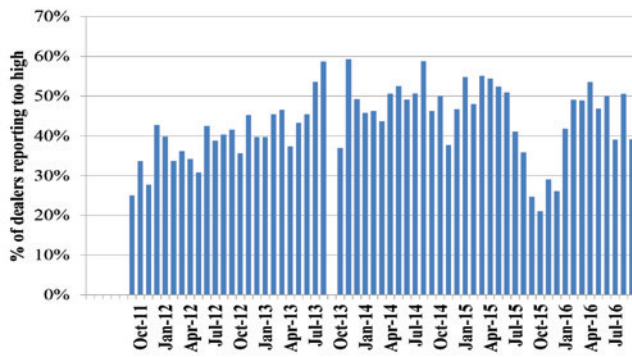
Used combine pricing was down 11% year-over-year during the month, inline with August.

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



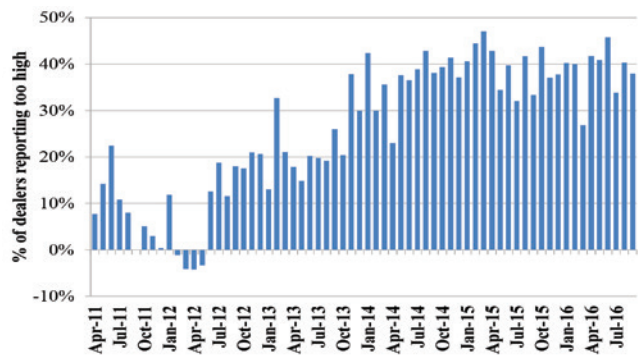
Large tractors were reported down about 7% year-over-year on average, slightly better than the 8% reported in August.

Used Combine Inventory



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

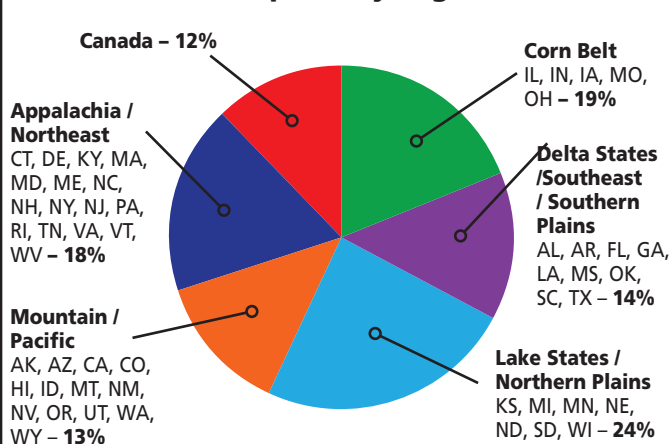
Industry Inventory Levels — Used Equipment



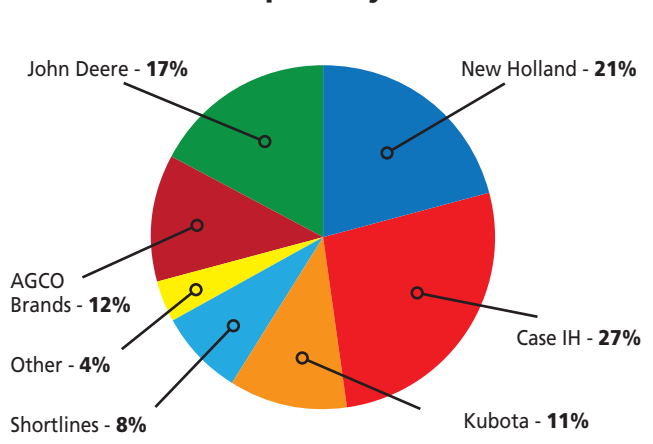
A net 38% of dealers reported used equipment inventories as "too high" (46% too high, 46% about right, 8% too low), better than the 40% reporting heightened inventory in August (49% too high, 43% about right, 8% too low).

OCTOBER 2016 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The October survey had about 140 respondents representing combined annual revenues of roughly \$6 billion, covering a broad cross section of geographies and brands.