

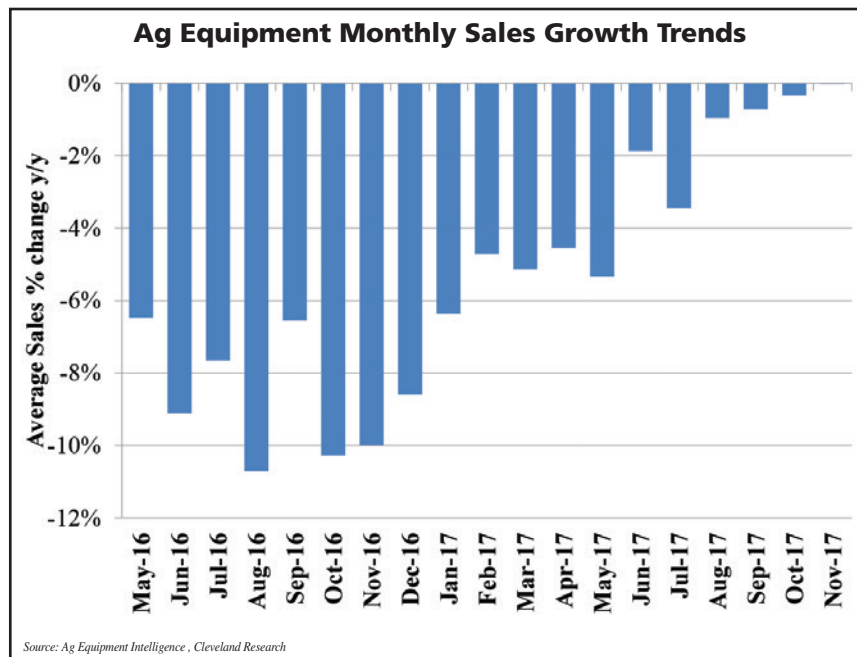
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Flat in November

- ✓ Average North American dealer sales were flat year-over-year in November, in line with October and an improvement from the 2% declines reported in 3Q.
- ✓ A net 16% of dealers reported their new equipment inventories are "too high," a slight improvement from the 18% in October.
- ✓ A net 16% of dealers reported their used equipment inventories were "too high," an improvement from the 22% who reported heightened used inventories the month before.
- ✓ Dealers once again reported relatively flat pricing for new equipment as OEM price increases have been offset by discounting at the dealer level. Prices on used large tractors were down 4% vs. the 5% decline in October. Used combine pricing improved as well at down 5% vs. down 7% the month prior.



Results vs. Expectations															
	Nov-14	Nov-15	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
Better than expected	21%	12%	8%	11%	16%	11%	12%	16%	19%	16%	16%	21%	21%	18%	21%
In line with expectations	40%	51%	61%	57%	59%	58%	58%	54%	52%	65%	48%	52%	47%	55%	60%
Worse than expected	39%	37%	31%	32%	25%	31%	30%	30%	30%	19%	36%	27%	32%	27%	20%
Net % (Better - Worse)	-18%	-25%	-24%	-22%	-9%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%	-8%	1%

2018 Full-Year Outlook: Sales Up 2%

- ✓ The 2018 forecast is for 2% year-over-year growth with a net 40% of contacts expecting growth, up from the 32% of contacts expecting growth in October. Dealers are more optimistic on 2018 as November trends were better than expected but remain cautious as commodity prices continue to pressure farmer income.
- ✓ John Deere dealers were the most optimistic, forecasting sales to improve by 4%, while shortline/other dealers were the least optimistic and anticipate sales to be down 5% in 2018.

Dealer Outlook — 2017													
(% chg y/y)	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
AGCO	-8%	-2%	-1%	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%	-7%	3%
John Deere	-6%	-5%	-3%	-3%	-3%	0%	0%	3%	-4%	3%	1%	0%	4%
New Holland	-5%	-4%	-6%	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%	-14%	2%
Case IH	2%	-13%	-7%	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%	-1%	3%
Kubota	-6%	-2%	-8%	3%	4%	1%	1%	3%	11%	3%	-3%	-1%	1%
Shortlines/Other	0%	-10%	1%	-2%	-6%	-10%	2%	0%	-3%	-1%	2%	-1%	-5%
Overall	-4%	-4%	-4%	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%	-2%	2%

Dealer Optimism Sees Big Jump in November

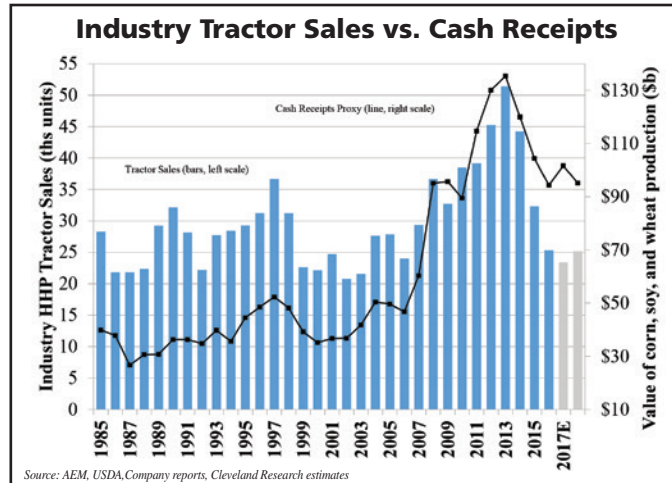
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, improved once again in November. A net 10% of dealers report being more optimistic compared to the month before. This is the highest reading since January 2017 when a net 11% of dealers reported being more optimistic.

Optimism/Sentiment vs. Last Month													
	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17
More Optimistic	15%	17%	31%	21%	26%	17%	19%	23%	21%	23%	23%	22%	24%
Same	60%	58%	48%	60%	47%	53%	61%	58%	47%	52%	51%	56%	63%
Less Optimistic	25%	26%	20%	19%	27%	30%	20%	19%	32%	26%	26%	22%	14%
Net % Dealer Optimism	-10%	-9%	11%	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%	0%	10%

USDA Outlook for Cash Receipts

Since 2009, the value of U.S. corn, soybeans and wheat production 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. annual industry sales of high horsepower (>100 HP) tractors.

USDA's December crop report was largely unchanged from November with cash receipts proxy forecast down 6% year-over-year in 2017-18. Wheat cash receipt forecasts are down 11% year-over-year, corn forecasts down 9% year-over-year and soybean forecasts are flat.



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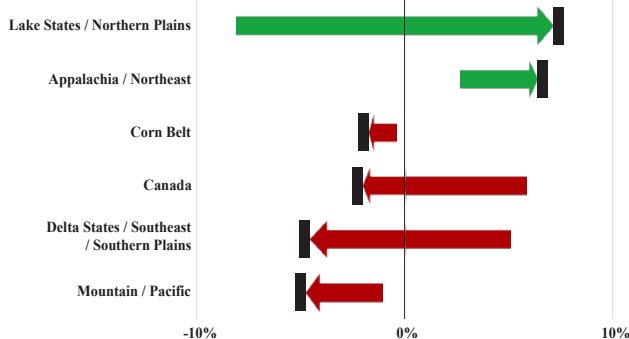
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NEW EQUIPMENT TRENDS

Average Sales Growth by Region

Net % Reporting Strength/Weakness in November 2017; Arrows show change vs. October 2017

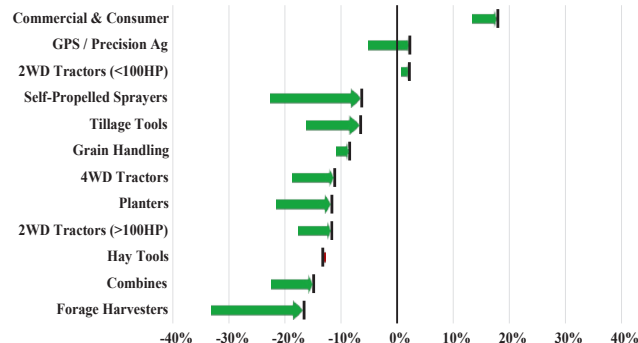


Source: Ag Equipment Intelligence

Sales trends by region fell in 4 of the 6 regions from October, but remain in line with the prior trend. The Lake States/Northern Plains region was the strongest region during the month and saw the greatest improvement from October. Trends in the Mountain/Pacific region were weak in the month, in line with the prior trend.

Equipment Category Sales Trends

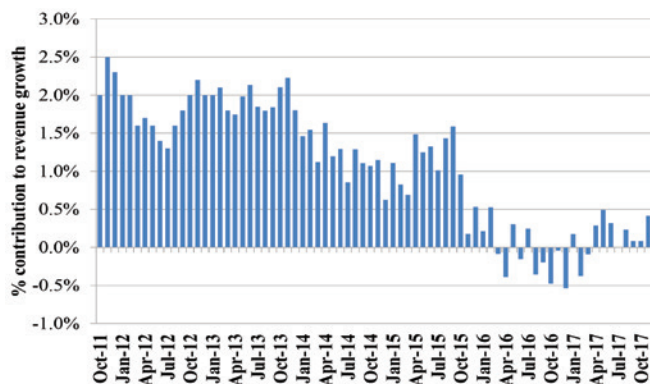
Net % Reporting Strength/Weakness in November 2017; Arrows show change vs. October 2017



Source: Ag Equipment Intelligence

All equipment categories showed improvement in November from the prior month. This marks the first month since January in which all categories saw sequential improvement. Commentary suggests large equipment demand improved in November and dealers are optimistic that this trend will continue into 2018.

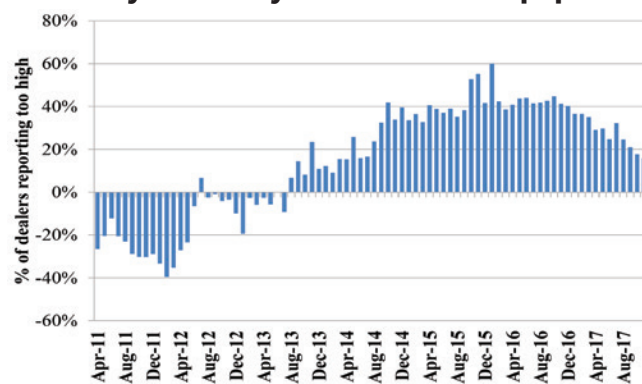
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers have reported relatively flat pricing over the last 2 years as incentive programs have more than offset list price increases. Commentary suggests modest manufacturer list price increases in the 0.5-1% range.

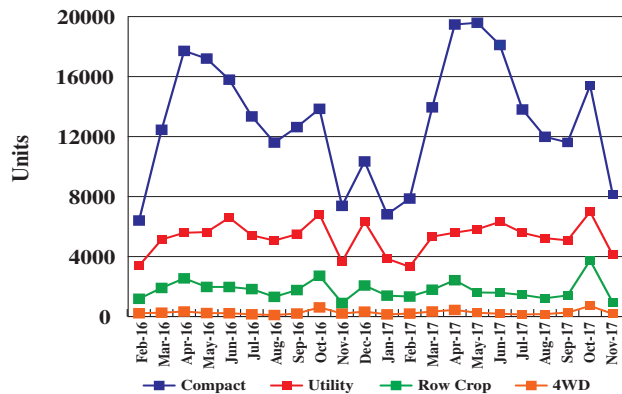
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 16% of dealers reported new equipment inventories were "too high" (32% too high, 52% about right, 16% too low), better than the 18% in October. New inventory levels have been elevated for over 3 years, but came down over the past year.

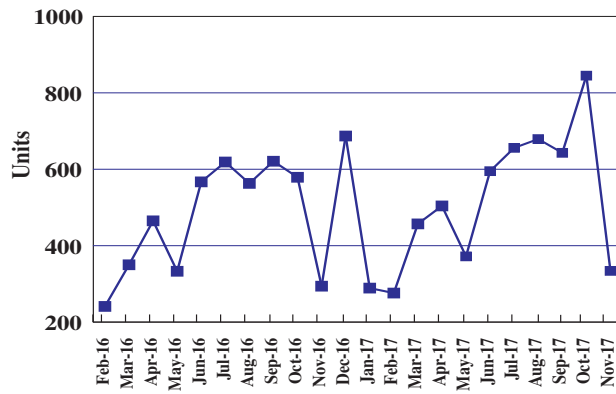
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 10% year-over-year in November, with row-crop tractors up 5% year-over-year for the month. 4WD tractors were the only category to see a decline at down 9% in November.

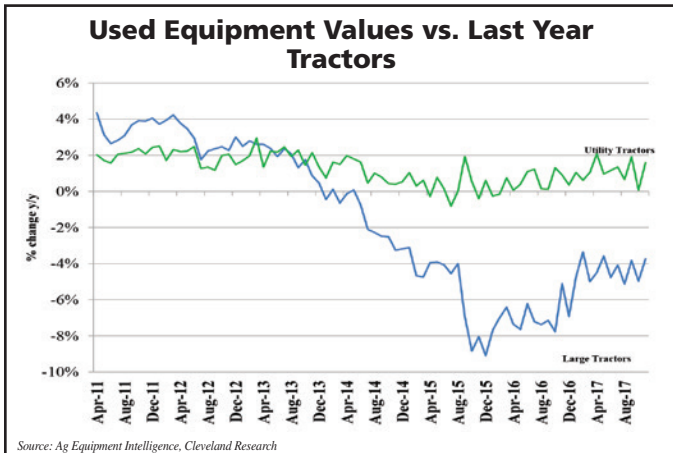
North American Combine Sales



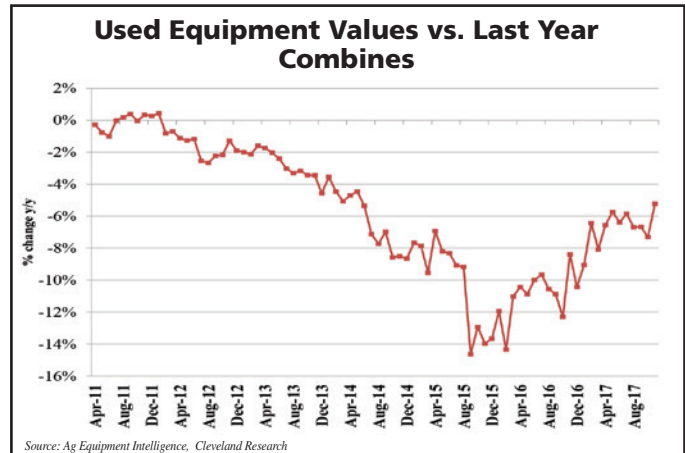
Source: AEM, Cleveland Research

Total North American combine sales were up 14% in November, following the 46% year-over-year sales gain experienced in October.

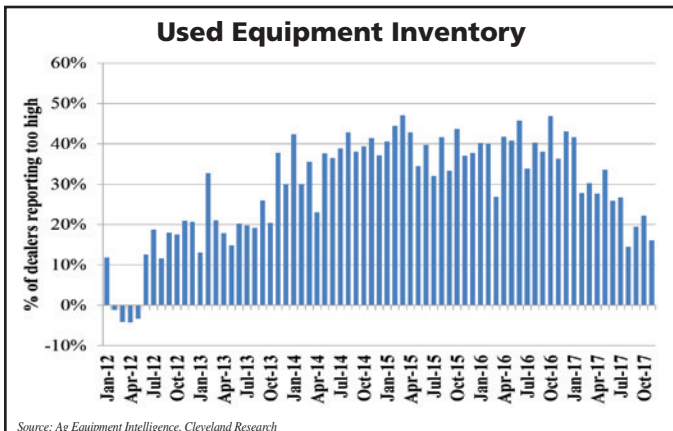
USED EQUIPMENT TRENDS



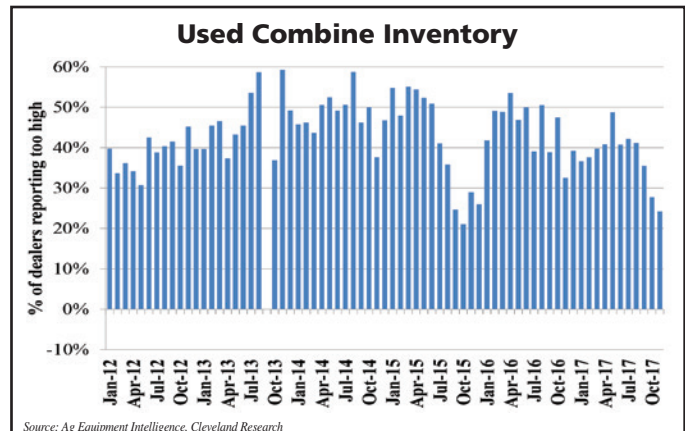
Pricing trends improved in the month. Large tractor prices were reported down 4% year-over-year, an improvement from the 5% declines in October.



Dealers reported used combine pricing was down 5% year-over-year in November, better than the down 7% dealers reported in October.

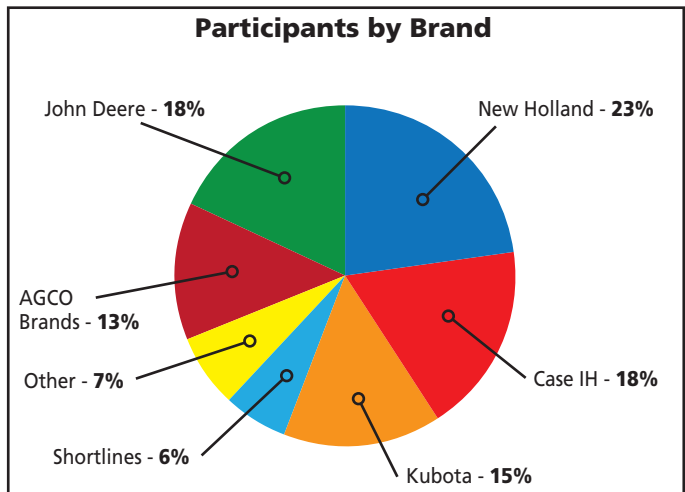
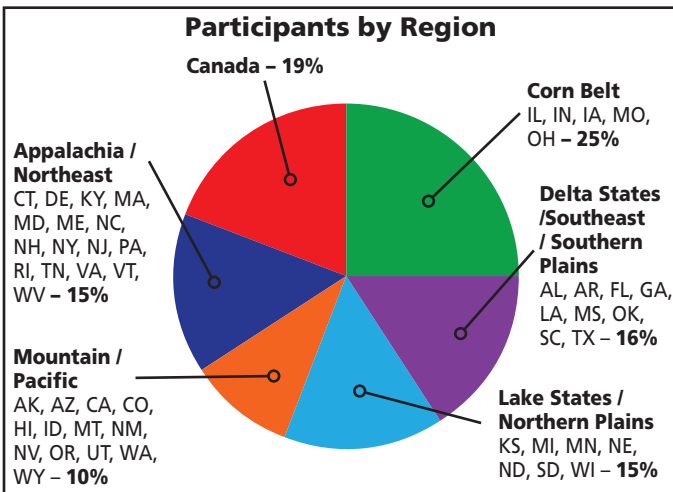


A net 16% of dealers reported used equipment inventory as "too high" (30% too high, 56% about right, 14% too low), better than the 22% reporting heightened inventory in October and better than the 26% average year-to-date.



Used combine inventory levels were reported as "too high" by a net 24% of dealers in November

DECEMBER 2017 SURVEY RESPONDENTS



The December survey had about 160 respondents representing combined annual revenues of roughly \$5 billion. By brand, 23% of respondents were New Holland dealers, 18% Case IH, 18% John Deere, 15% Kubota, 13% AGCO dealers and 13% independent dealers.