

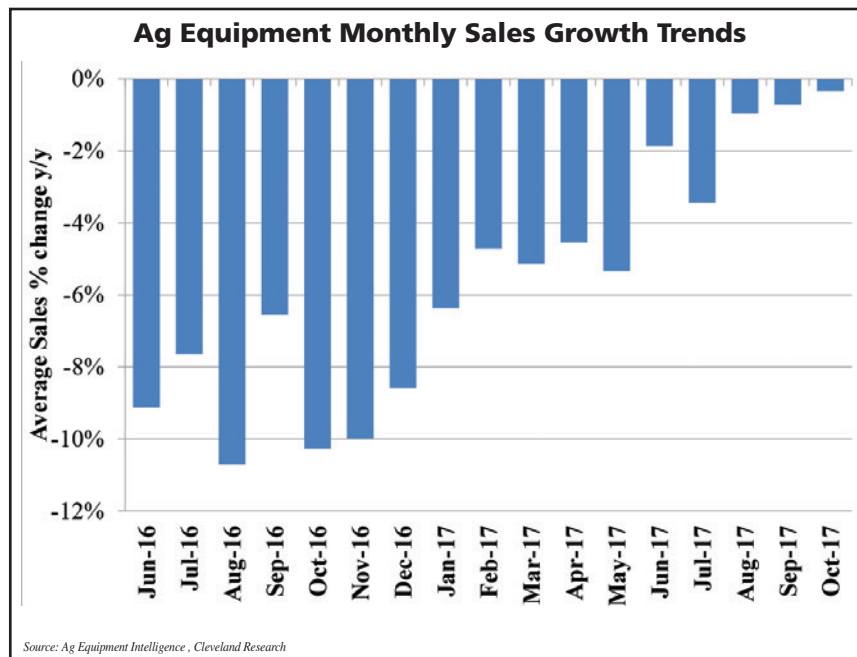
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Flat in October

- ✓ Average North American dealer sales were flat year-over-year in October, an improvement from down 1% the prior month.
- ✓ A net 18% of dealers reported their new equipment inventories are "too high," a slight improvement from the 21% in September.
- ✓ A net 22% of dealers reported their used equipment inventories were "too high," slightly higher than the 19% 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 5% vs. the 3% decline in September. Used combine pricing was unchanged from the previous month at down 7%.



Results vs. Expectations															
	Oct-14	Oct-15	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
Better than expected	22%	15%	16%	8%	11%	16%	11%	12%	16%	19%	16%	16%	21%	21%	18%
In line with expectations	51%	43%	40%	61%	57%	59%	58%	54%	52%	65%	48%	52%	47%	55%	
Worse than expected	27%	41%	44%	31%	32%	25%	31%	30%	30%	30%	19%	36%	27%	32%	27%
Net % (Better - Worse)	-5%	-26%	-28%	-24%	-22%	-9%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%	-8%

2017 Outlook: Sales -2% / 2018 Outlook: Sales Flat

- ✓ The 2017 sales growth forecast was reported down 2%, in line with the year-to-date reading of down 3%, but below August's down 1%.
- ✓ The 2018 forecast is for flat year-over-year growth, with a net 32% of dealers expecting growth, up from the 28% expecting growth in September. Dealers are more optimistic on 2018 as early order program trends have been positive, but remain cautious as commodity prices continue to pressure farmer income.
- ✓ John Deere dealers were the most optimistic, forecasting flat sales in the year ahead.

Dealer Outlook — 2017													
(% chg y/y)	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
AGCO	-10%	-8%	-2%	-1%	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%	-7%
John Deere	-1%	-6%	-5%	-3%	-3%	-3%	0%	0%	3%	-4%	3%	1%	0%
New Holland	-3%	-5%	-4%	-6%	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%	-14%
Case IH	-12%	2%	-13%	-7%	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%	-1%
Kubota	-3%	-6%	-2%	-8%	3%	4%	1%	1%	3%	11%	3%	-3%	-1%
Shortlines/Other	-2%	0%	-10%	1%	-2%	-6%	-10%	2%	0%	-3%	-1%	2%	-1%
Overall	-5%	-4%	-4%	-4%	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%	-2%

Dealer Optimism Improves in October

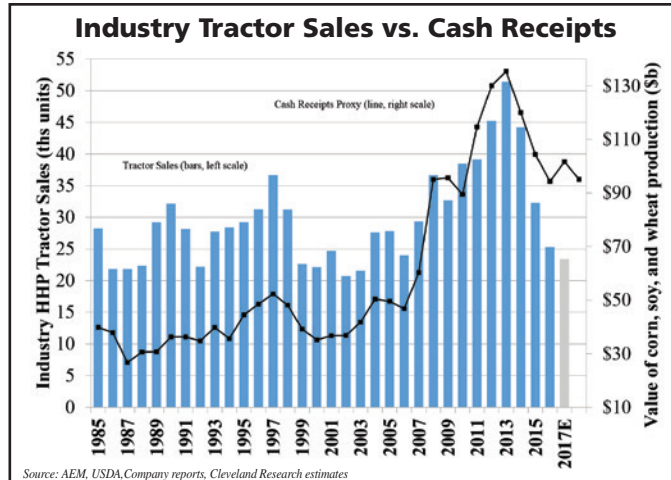
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw an improvement in October. The Index is at 0, which is an improvement from the net -3% reading in September. The last positive reading was in June 2017, when a net 4% of dealers were more optimistic.

Optimism/Sentiment vs. Last Month													
	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17
More Optimistic	13%	15%	17%	31%	21%	26%	17%	19%	23%	21%	23%	23%	22%
Same	53%	60%	58%	48%	60%	47%	53%	61%	58%	47%	52%	51%	56%
Less Optimistic	34%	25%	26%	20%	19%	27%	30%	20%	19%	32%	26%	26%	22%
Net % Dealer Optimism	-21%	-10%	-9%	11%	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%	0%

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 November crop report improved from October with cash receipts proxy forecast down 6% year-over-year in 2017-18 vs. the 7% forecast in October. Wheat cash receipts forecasts are unchanged at down 11% year-over-year, corn forecasts are down 9% year-over-year vs. down 11% previously, and soybean forecasts are flat vs. down 1% previously.



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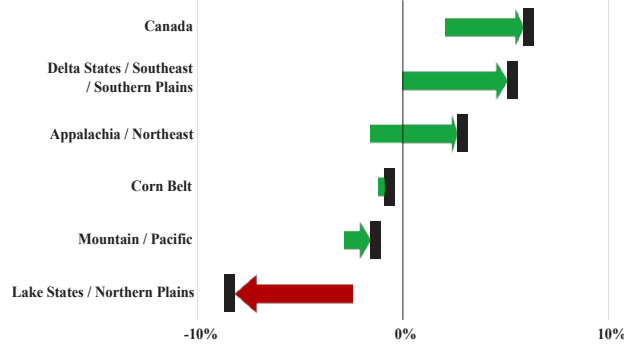
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NEW EQUIPMENT TRENDS

Average Sales Growth by Region

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

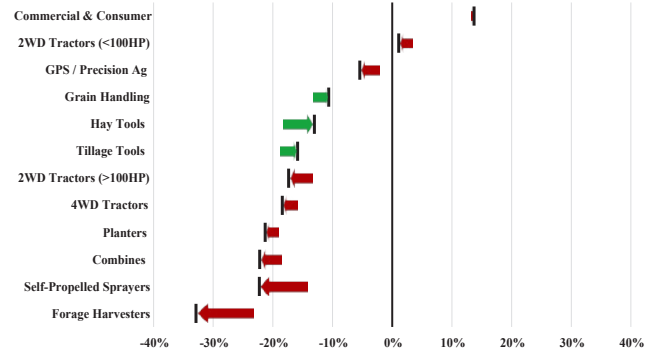


Source: Ag Equipment Intelligence

Sales trends by region remained solid in October and improved in 5 of the 6 regions, similar to 3Q. Canada was the strongest region in the month, in line with 3Q, while the Corn Belt continues to see flat year-over-year growth. Trends in the Lake States/Northern Plains region saw the greatest decline from September.

Equipment Category Sales Trends

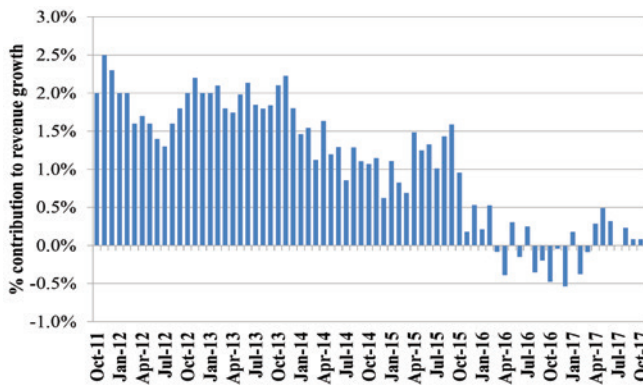
Net % Reporting Strength/Weakness in October 2017; Arrows show change vs. September 2017



Source: Ag Equipment Intelligence

Commercial and consumer lawn equipment and 2WD (<100 HP) tractor sales showed strength, while large equipment demand remains weak. Sequentially, sales in the majority of equipment categories fell slightly from September, but remain similar to 3Q trends.

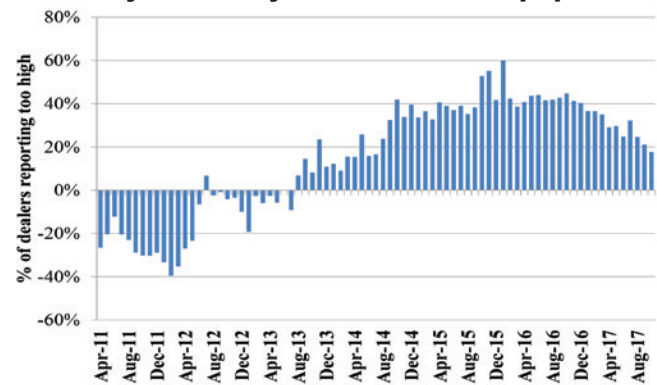
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers reported relatively flat pricing over the last year as incentive programs have more than offset list price increases. Commentary was mixed in the month as dealers reported both increases in incentives and increases in manufacturer list prices.

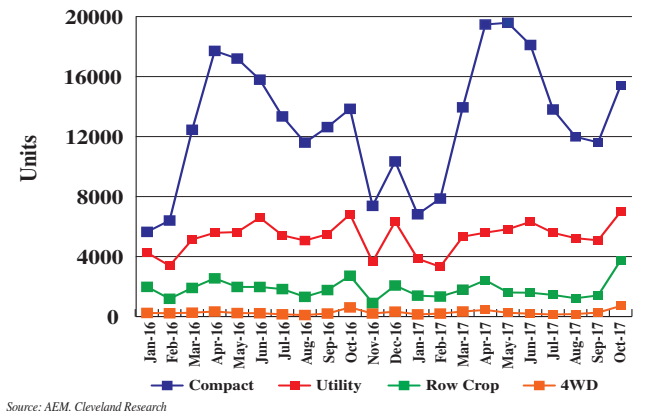
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 18% of dealers reported new equipment inventories "too high" (30% too high, 58% about right, 12% too low), better than the 21% in September. New equipment inventory levels have been elevated for over 3 years, but have come down over the past year.

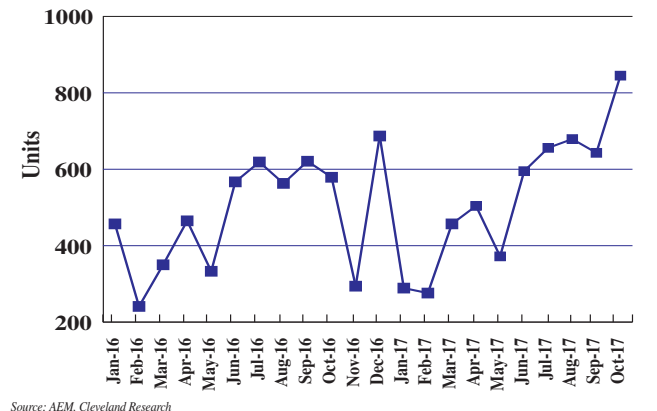
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 12% year-over-year in October, with row-crop tractors up 38% year-over-year for the month and 4WD tractors up 16% for the month.

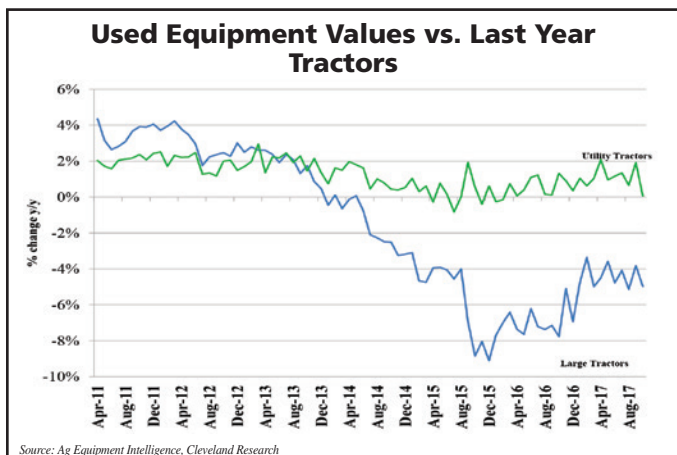
North American Combine Sales



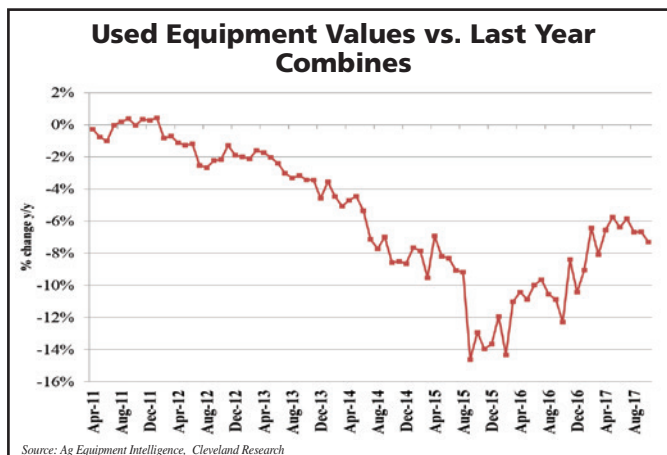
Source: AEM, Cleveland Research

Total North American combine sales were up 46% in October. North American combine sales have seen positive growth for the last 8 months following declines for all but two months over the last 3 years.

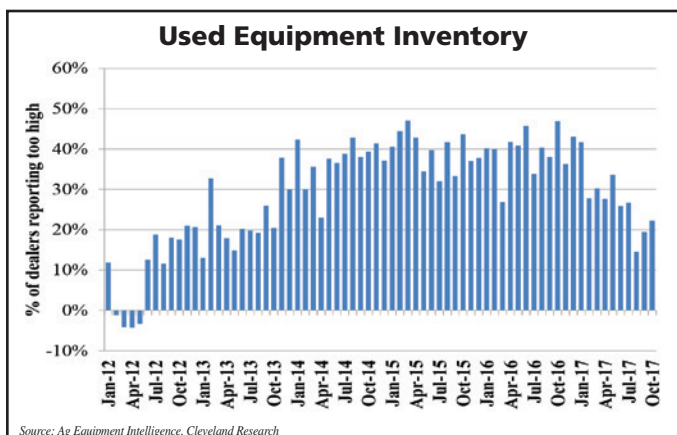
USED EQUIPMENT TRENDS



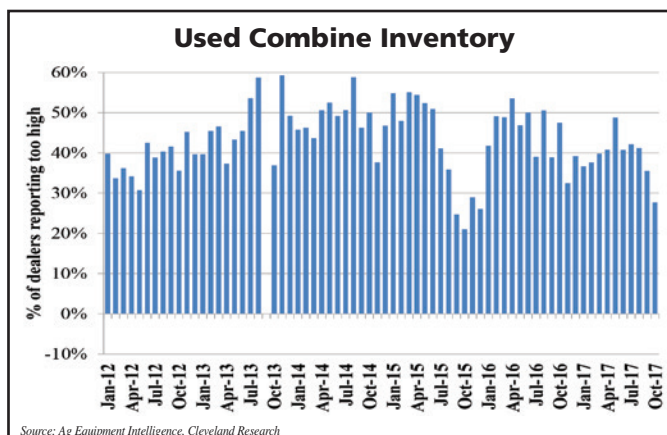
Pricing trends declined in the month. Large tractor prices were reported down 5% year-over-year, below the 3% declines in September.



Dealers reported used combine pricing was in line with September at down 7% year-over-year.

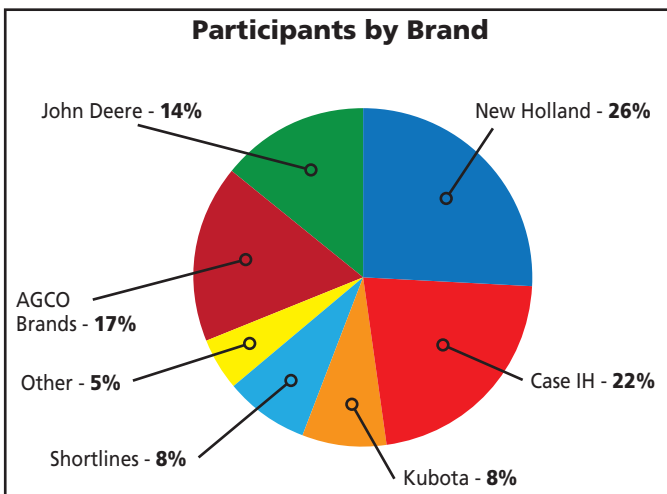
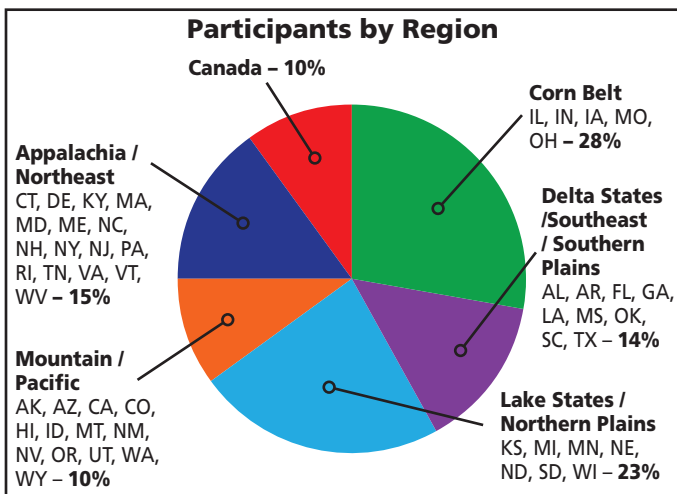


A net 22% of dealers reported used equipment inventory as "too high" (35% too high, 53% about right, 13% too low), similar to the 19% reporting heightened inventory in September and better than the 27% average year-to-date.



Used combine inventory levels were reported as "too high" by a net 28% of dealers in October, better than the 36% in September.

NOVEMBER 2017 SURVEY RESPONDENTS



The November survey had about 150 respondents representing combined annual revenues of roughly \$5 billion. By brand, 26% of respondents were New Holland dealers, 22% Case IH, 14% John Deere, 8% Kubota, 17% AGCO dealers and 13% independent dealers.