

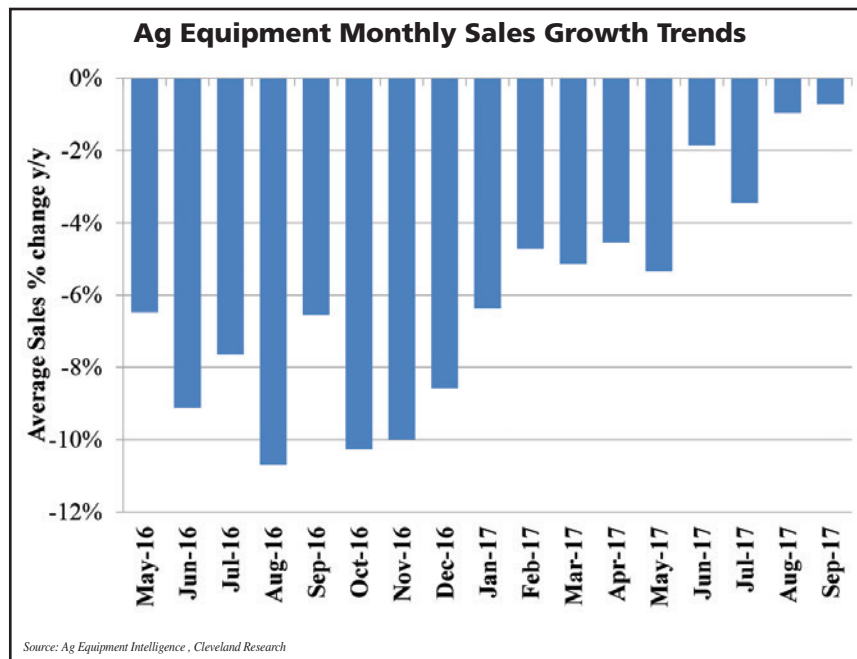
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Down 1% in September

- ✓ Average North American dealer sales were down 1% year-over-year in September, in line with August.
- ✓ A net 21% of dealers reported their new equipment inventories are "too high," a slight improvement from 25% the prior month.
- ✓ A net 14% of dealers reported their used equipment inventories were "too high," similar to the 15% in August.
- ✓ 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 3% vs. the 5% decline in August. Used combine pricing was unchanged from the previous month at down 7%.



Results vs. Expectations															
	Sep-14	Sep-15	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Better than expected	24%	20%	14%	16%	8%	11%	16%	11%	12%	16%	19%	16%	16%	21%	21%
In line with expectations	47%	52%	44%	40%	61%	57%	59%	58%	58%	54%	52%	65%	48%	52%	47%
Worse than expected	29%	28%	42%	44%	31%	32%	25%	31%	30%	30%	30%	19%	36%	27%	32%
Net % (Better - Worse)	-5%	-8%	-28%	-28%	-24%	-22%	-9%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%

2017 Outlook: Sales -3% / 2018 Outlook: Sales +1%

- ✓ The 2017 sales growth forecast was reported down 3%, in line with the year-to-date reading of down 3%, but below August's down 1%.
- ✓ The 2018 forecast is for 1% growth, with a net 28% of dealers expecting growth, up from the 23% of dealers expecting growth in August. Dealers are more optimistic on 2018 as early order program trends have been positive.
- ✓ Shortline/other dealers were the most optimistic, predicting 2% growth for 2017 in September.

Dealer Outlook — 2017													
(% chg y/y)	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
AGCO	-20%	-10%	-8%	-2%	-1%	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%
John Deere	-15%	-1%	-6%	-5%	-3%	-3%	-3%	0%	0%	3%	-4%	3%	1%
New Holland	-21%	-3%	-5%	-4%	-6%	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%
Case IH	-20%	-12%	2%	-13%	-7%	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%
Kubota	4%	-3%	-6%	-2%	-8%	3%	4%	1%	1%	3%	11%	3%	-3%
Shortlines/Other	-19%	-2%	0%	-10%	1%	-2%	-6%	-10%	2%	0%	-3%	-1%	2%
Overall	-8%	-5%	-4%	-4%	-4%	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%

Dealer Optimism Unchanged in September

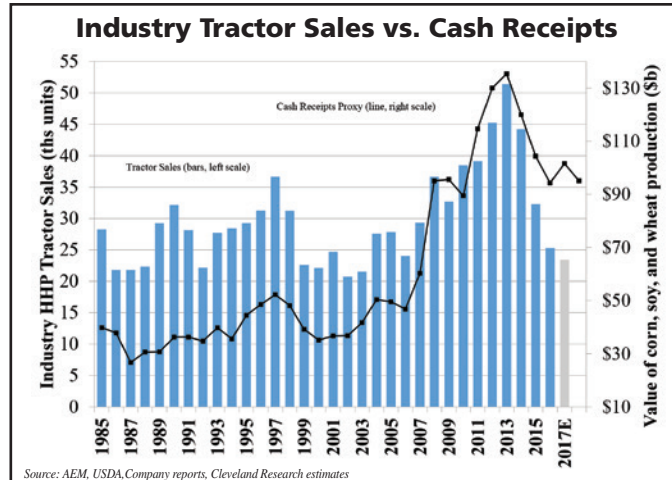
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, saw an improvement in August. A net 3% of dealers reported being less optimistic (23% more optimistic, 51% same, 26% less optimistic) unchanged from August.

Optimism/Sentiment vs. Last Month													
	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
More Optimistic	14%	13%	15%	17%	31%	21%	26%	17%	19%	23%	21%	23%	23%
Same	49%	53%	60%	58%	48%	60%	47%	53%	61%	58%	47%	52%	51%
Less Optimistic	38%	34%	25%	26%	20%	19%	27%	30%	20%	19%	32%	26%	26%
Net % Dealer Optimism	-24%	-21%	-10%	-9%	11%	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%

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 October crop report was unchanged from September with cash receipts proxy forecast down 7% year-over-year in 2017-18. Wheat cash receipts are forecast down 11% year-over-year, corn forecasts are down 11% and soybean forecasts are down 1% year-over-year.



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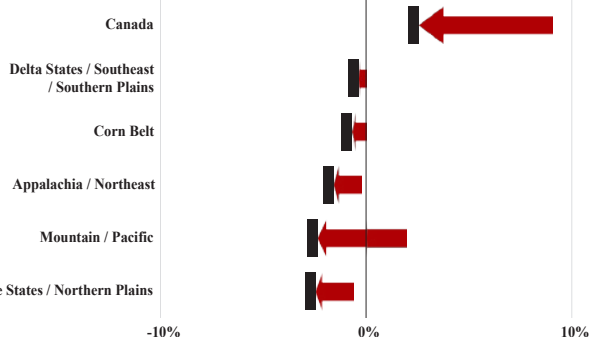
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NEW EQUIPMENT TRENDS

Average Sales Growth by Region

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

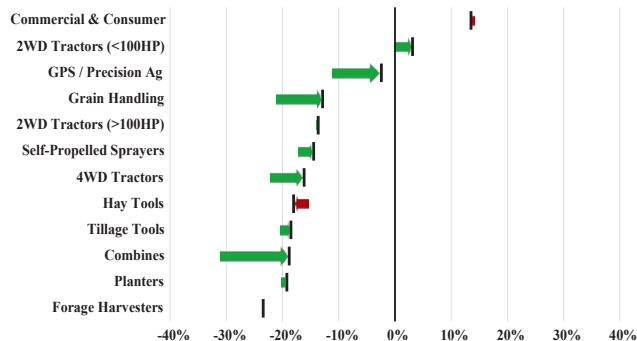


Source: Ag Equipment Intelligence

Sales growth by region improved in 3Q with sales trends improving to down 5% to up 2% from down 5% to down 1% in 2Q. Sales trends by region remained solid in September, but softened from August. Trends in Canada and the Mountain Pacific region saw the greatest deceleration from August.

Equipment Category Sales Trends

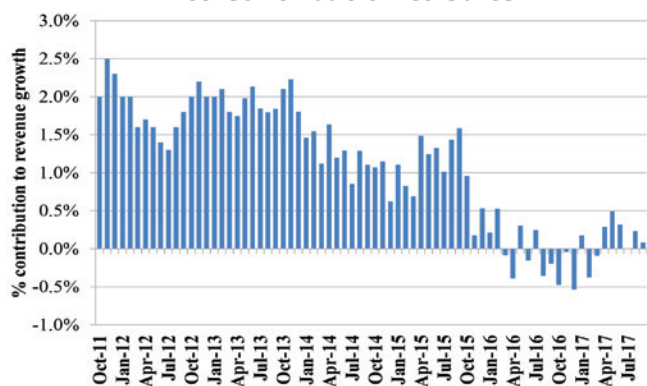
Net % Reporting Strength/Weakness in September 2017; Arrows show change vs. August 2017



Source: Ag Equipment Intelligence

Commercial and consumer lawn equipment and 2WD tractor sales showed strength, while large equipment demand remains weak. Sequentially, the majority of equipment category sales improved from August in September.

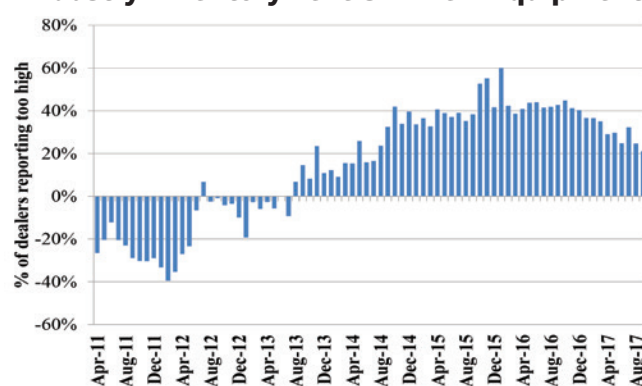
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers have consistently reported relatively flat pricing over the last year as incentive programs have more than offset list price increases. Commentary in the month suggests a ramp up in OEM incentive programs, in line with prior dealer expectations.

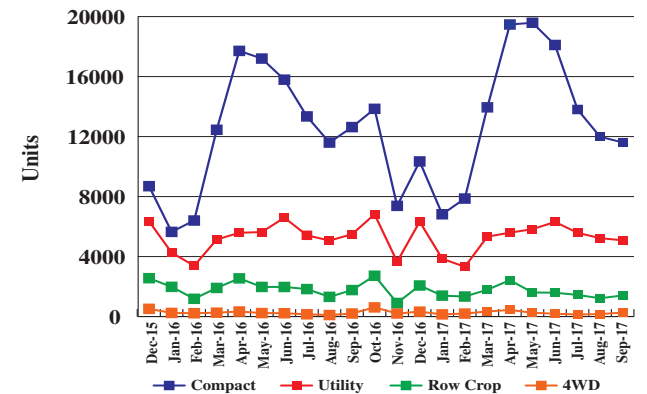
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 21% of dealers reported new equipment inventories as "too high" (36% too high, 49% about right, 15% too low), similar to the 25% in August. New inventory levels have been elevated for over 3 years, but have come down over the past year.

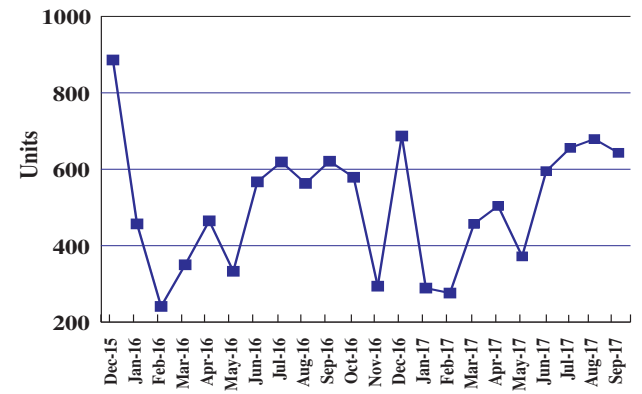
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were down 8% year-over-year in September, with row-crop tractors dropping 20% year-over-year for the month and drops of 8% and 7% for <40 HP and utility tractors, respectively.

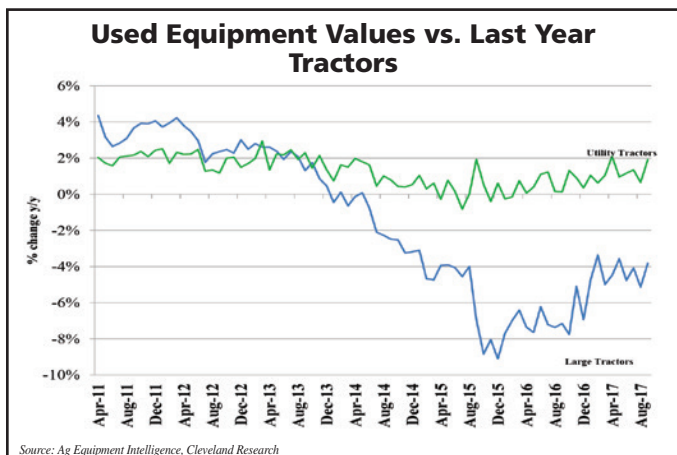
North American Combine Sales



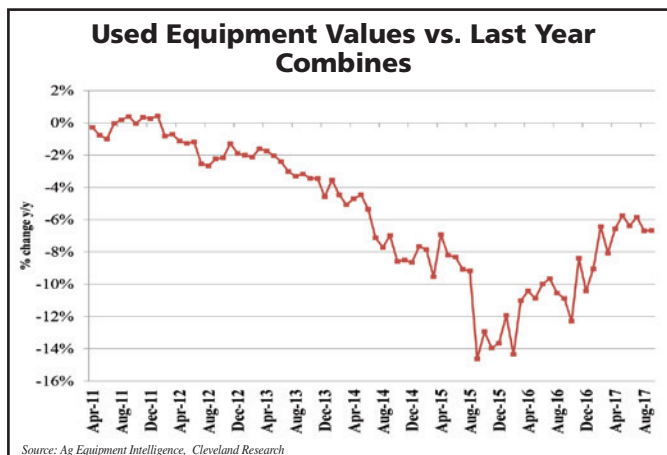
Source: AEM, Cleveland Research

Total North American combine sales were up 4% in September. North American combine sales have seen positive growth for the last 7 months following declines for all but two months over the last 3 years.

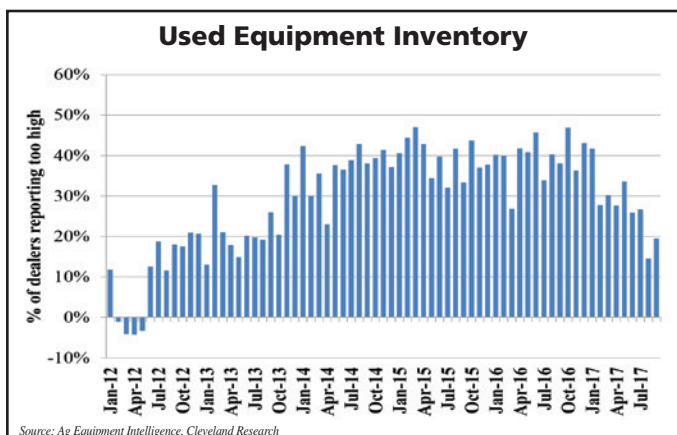
USED EQUIPMENT TRENDS



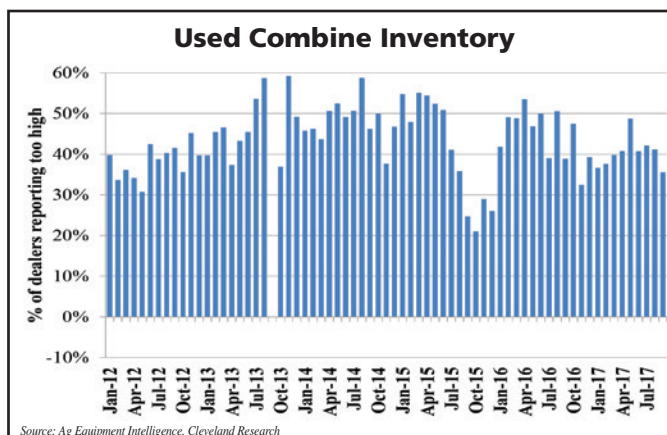
Pricing trends improved in the month. Large tractors were reported down 3% year-over-year, better than the 5% declines in August.



Used combine pricing was in line with August at down 7% year-over-year.

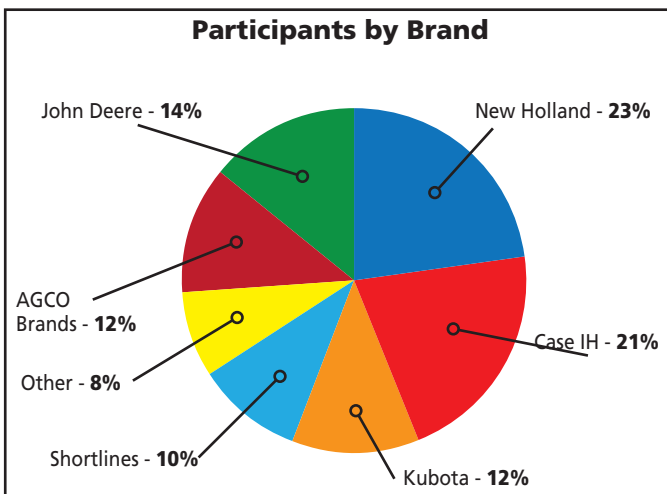
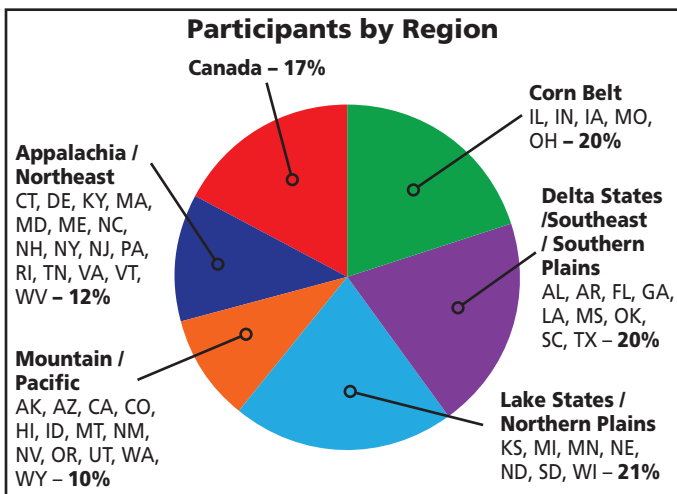


A net 14% of dealers reported used equipment inventory as too high (28% too high, 58% about right, 14% too low), similar to the 15% reporting heightened inventory in August and the 28% average year-to-date.



Used combine inventory levels were reported as "too high" by a net 36% of dealers in September, better than the 41% the month before.

OCTOBER 2017 SURVEY RESPONDENTS



The September survey had about 130 respondents representing combined annual revenues of roughly \$5 billion. By brand, 23% of respondents were New Holland dealers, 21% Case IH, 14% John Deere, 12% Kubota, 12% AGCO dealers and 18% independent dealers.