

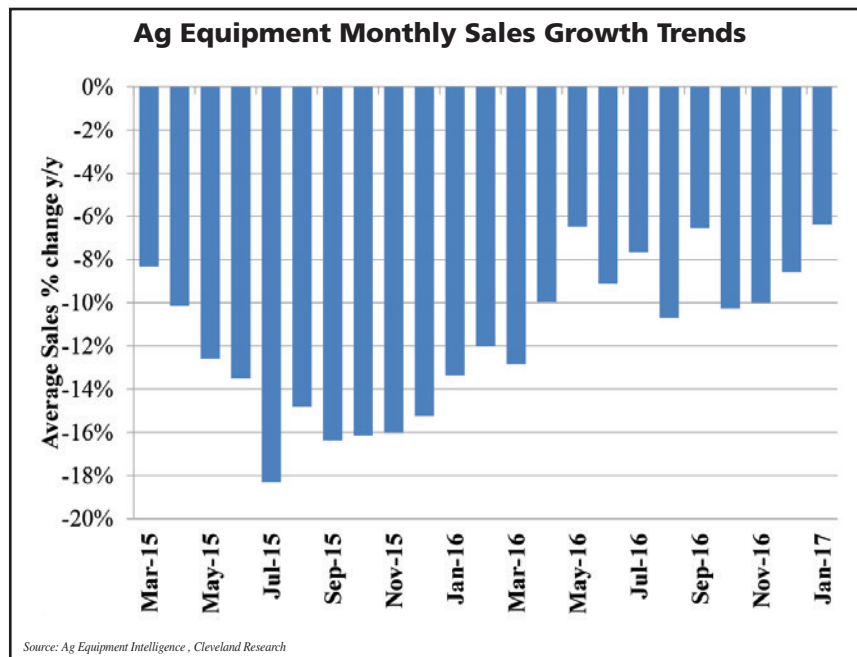
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Decline 6% in January

- ✓ Average North American dealer sales were down 6% year-over-year in January, an improvement from down 10% in December.
- ✓ A net 37% of dealers reported their new equipment inventories are "too high," better than the 40% who reported inventories were "too high" the previous month.
- ✓ More dealers reported their used equipment inventories were "too high" at a net 42%, relatively flat with the month before.
- ✓ Dealers report mostly flat pricing for new equipment during the past month. Prices on used large tractors were down 5% year-over-year on average, better than the down 7% reported the previous month. Used combine pricing was down 9% year-over-year vs. down 10% in December.



Results vs. Expectations																		
	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	Nov-16	Dec-16	Jan-17
Better than expected	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%	14%	14%	16%	8%	11%	16%
In line with expectations	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%	44%	44%	40%	61%	57%	59%
Worse than expected	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%	41%	42%	44%	31%	32%	25%
Net % (Better - Worse)	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-28%	-27%	-28%	-28%	-24%	-22%	-9%

2017 Full-Year Outlook: Sales Down 4%

- ✓ Dealers forecast 2017 sales growth at down 4% on average, in line with last month's forecast following improvements in cash receipt forecasts over the past 2-3 months.
- ✓ The 2017 outlook was similar to that of December with initial forecasts ranging from up 1% to down 8%.
- ✓ Shortline/other dealers were the most optimistic, calling for a 1% increase, while Kubota dealers were the least optimistic, forecasting sales to drop 8%.

Dealer Outlook — 2017							
(% chg y/y)	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17
AGCO	-1%	-2%	-20%	-10%	-8%	-2%	-1%
John Deere	-11%	-4%	-15%	-1%	-6%	-5%	-3%
New Holland	-4%	-3%	-21%	-3%	-5%	-4%	-6%
Case IH	-14%	-6%	-20%	-12%	2%	-13%	-7%
Kubota	6%	-24%	4%	-3%	-6%	-2%	-8%
Shortlines/Other	-3%	-5%	-19%	-2%	0%	-10%	-1%
Overall	-8%	-7%	-8%	-5%	-4%	-4%	-4%

Dealer Optimism Jumps in January

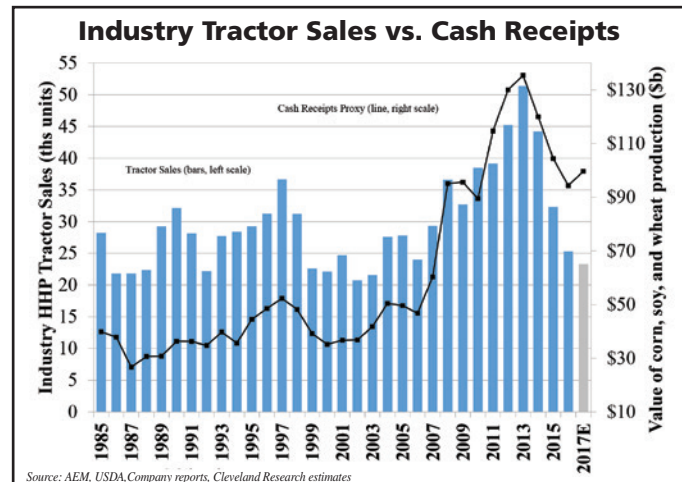
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 11% of dealers being more optimistic in January, compared to a net 9% being less optimistic in December. This is the first positive number we've seen on the Dealer Optimism Index since March 2014.

Optimism/Sentiment vs. Last Month																	
	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	Nov-16	Dec-16	Jan-17
More Optimistic	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%	11%	14%	13%	15%	17%	31%
Same	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%	52%	49%	53%	60%	58%	48%
Less Optimistic	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%	36%	38%	34%	25%	26%	20%
Net % Dealer Optimism	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%	-24%	-21%	-10%	-9%	11%

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 horsepower (>100 HP) tractors.

USDA's February crop report was similar to January, with cash receipts proxy forecast up 7% year-over-year in 2016-17. Corn and soybean price forecasts were unchanged, while wheat pricing estimates were raised 1% higher from last month.



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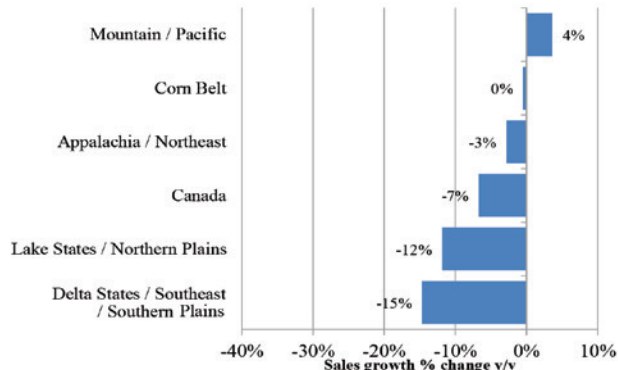
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NEW EQUIPMENT TRENDS

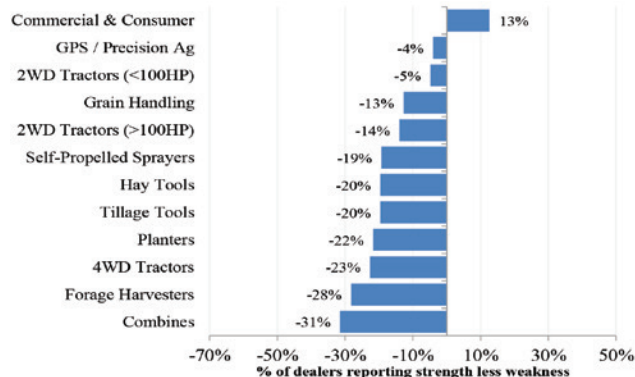
Average Sales Growth by Region



Source: Ag Equipment Intelligence

Sales trends by region were mixed for the month. Canada softened, declining in January following sequential improvement over the past few months. The Mountain/Pacific region saw the greatest improvement in the month, seeing growth for the first time in 6 months. The Corn Belt saw the highest reading since May 2014.

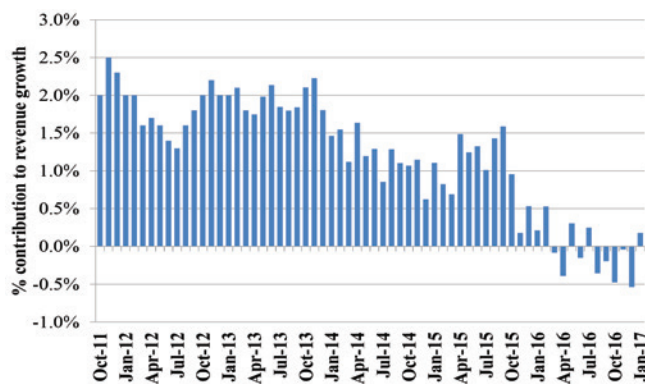
Equipment Category Sales Trends



Source: Ag Equipment Intelligence

All product categories improved vs. the previous month. Commercial & consumer lawn equipment continues to show strength in contrast to declines in other categories. While GPS/Precision Ag equipment had seen strength in the 1H16, trends have deteriorated over the past few months. We continue to see significant headwinds to large equipment sales.

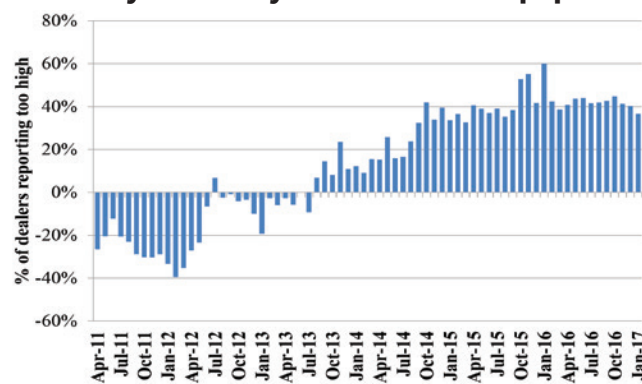
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers reported relatively flat pricing over the last few months as incentive programs have more than offset list price increases. Commentary in the month suggests that incentive programs are slowing.

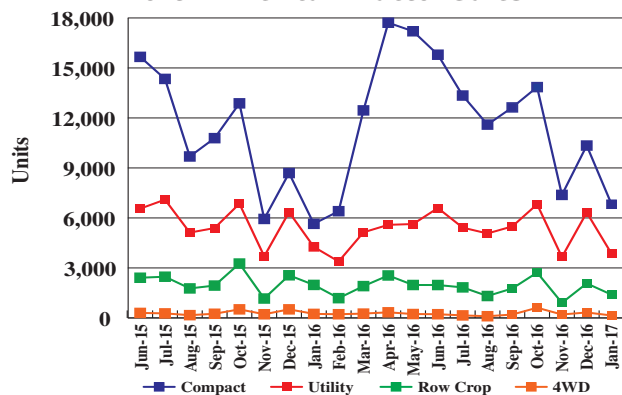
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 37% of dealers reported new equipment inventories are "too high" (42% too high, 53% about right, 5% too low), relatively in line with the net 40% of dealers reporting inventories as too high in December. New inventory levels have been elevated for over 3 years.

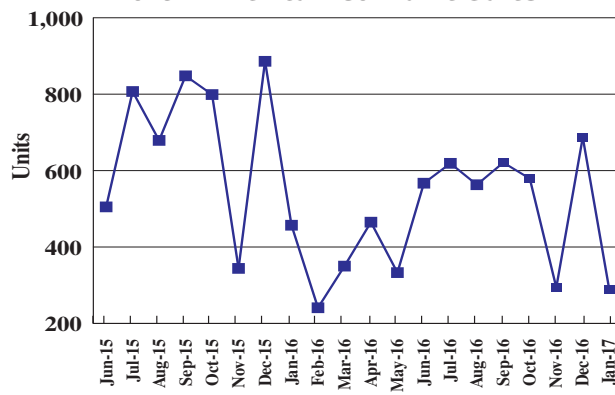
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were down 2% year-over-year in January on the strength of compact tractor sales, which saw sales increase 15% year-over-year.

North American Combine Sales

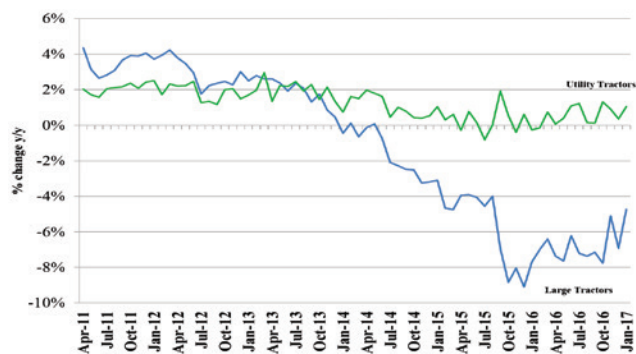


Source: AEM, Cleveland Research

Total North American combine sales declined 36% in January vs. January of the previous year, worse than the 22% year-over-year decline the prior month.

USED EQUIPMENT TRENDS

Used Equipment Values vs. Last Year Tractors



Source: Ag Equipment Intelligence, Cleveland Research

Used Equipment Values vs. Last Year Combines

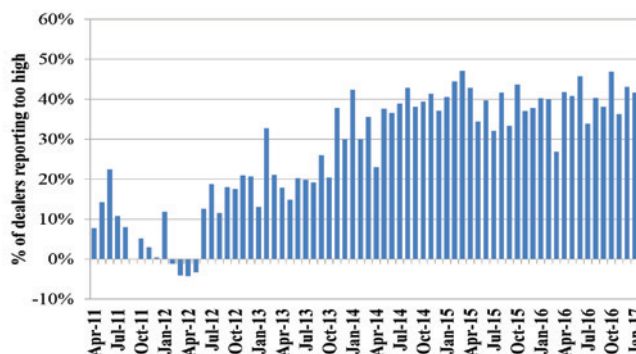


Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends improved across all categories in the month. Large tractors were reported down approximately 5% year-over-year on average, slightly better than the 7% decline reported in December.

Used combine pricing was down 9% year-over-year in January, a slight improvement from the down 10% reported for December.

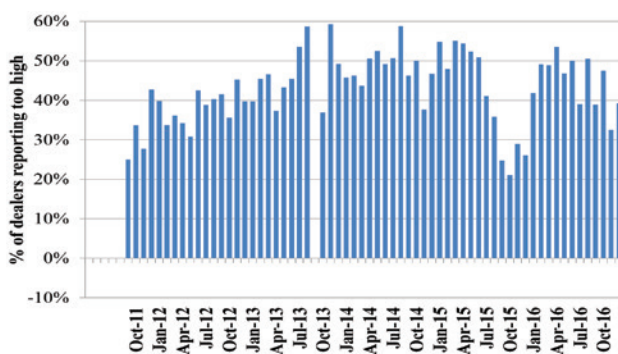
Used Equipment Inventory



Source: Ag Equipment Intelligence, Cleveland Research

A net 42% of dealers reported used equipment inventory as "too high" (52% too high, 38% about right, 10% too low), in line with the 43% reporting heightened inventory in December (47% too high, 49% about right, 4% too low).

Used Combine Inventory

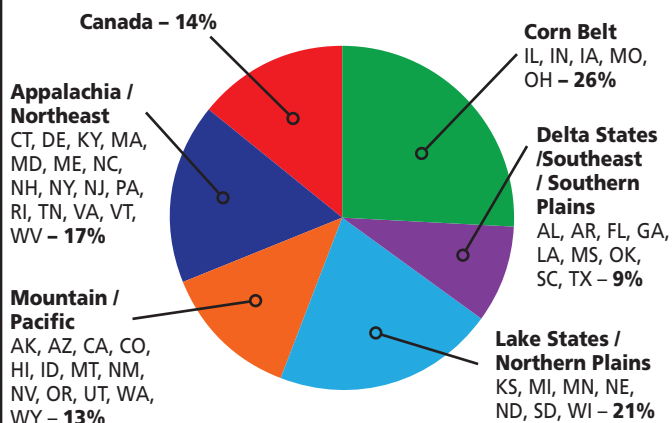


Source: Ag Equipment Intelligence, Cleveland Research

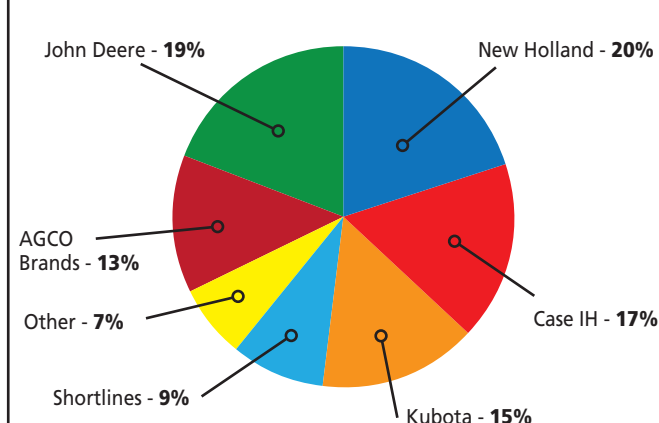
Used combine inventory levels were reported as too high by a net 37% of dealers in January, compared to December's reading of 39% and November's 33%.

FEBRUARY 2017 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The February survey had about 140 respondents representing combined annual revenues of roughly \$5 billion. By brand, 20% of respondents were New Holland dealers, 19% John Deere, 17% Case IH and 13% AGCO dealers.