

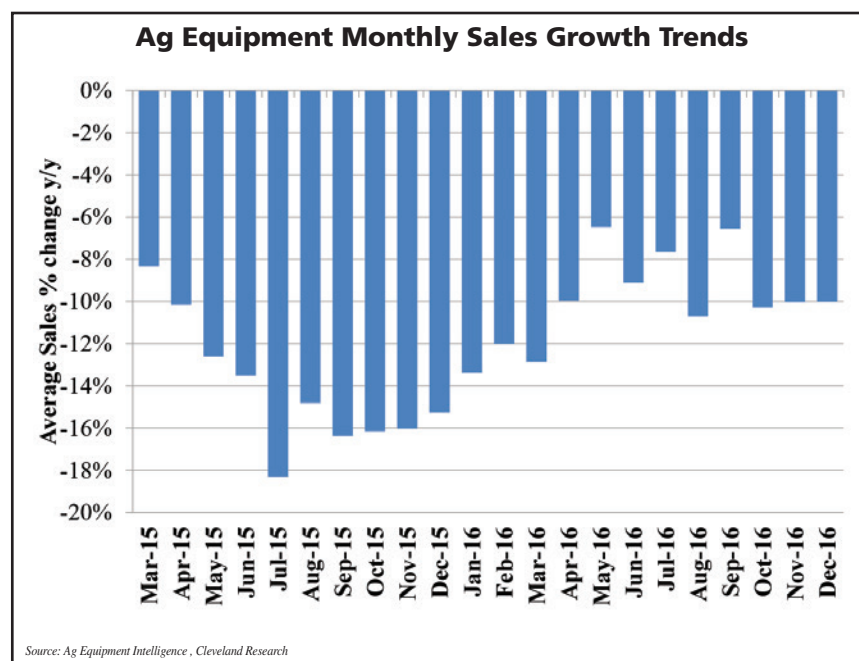
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Decline 10% in December

- ✓ Average North American dealer sales were down 10% year-over-year in December, in line with November.
- ✓ A net 40% of dealers reported their new equipment inventories are "too high," slightly better than the 41% who reported inventories were too high the previous month
- ✓ A higher percentage of dealers (43%) reported their used equipment inventories were up compared to the previous month when 36% said they were "too high."
- ✓ Dealers report little or no change in new equipment pricing during the past month. Prices on used large tractors were down 7% year-over-year on average, worse than the down 6% reported the previous month. Used combine pricing was down 10% year-over-year vs. down 8% in November.



Results vs. Expectations																			
	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	Oct-16	Nov-16	Dec-16	
Better than expected	18%	16%	19%	15%	12%	19%	12%	15%	20%	24%	21%	22%	15%	14%	14%	16%	8%	11%	
In line with expectations	45%	56%	53%	43%	51%	47%	52%	47%	52%	48%	46%	40%	43%	44%	44%	40%	61%	57%	
Worse than expected	36%	28%	28%	41%	37%	34%	35%	38%	28%	29%	34%	38%	42%	41%	42%	44%	31%	32%	
Net % (Better - Worse)	-18%	-12%	-9%	-26%	-25%	-15%	-23%	-22%	-8%	-5%	-13%	-17%	-28%	-27%	-28%	-28%	-24%	-22%	

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 November with initial forecasts ranging from down 2% to down 13%.
- ✓ Kubota and AGCO dealers were the most optimistic, predicting only a 2% decrease on sales. Case IH was the least optimistic, expecting a 13% decline in 2017.

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

Dealer Optimism Improves in December

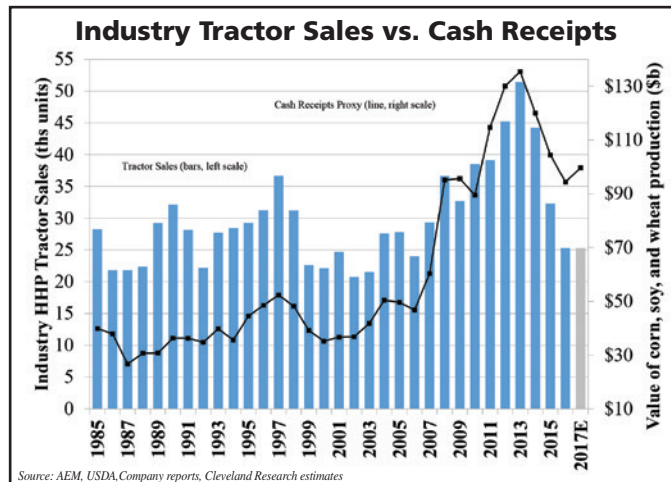
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, shows a net 9% of dealers being less optimistic in December, relatively in line with the 10% who were less optimistic in November.

Optimism/Sentiment vs. Last Month																	
	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
More Optimistic	11%	12%	8%	10%	8%	11%	13%	17%	15%	22%	11%	16%	11%	14%	13%	15%	17%
Same	45%	51%	60%	52%	48%	46%	51%	55%	59%	51%	60%	44%	52%	49%	53%	60%	58%
Less Optimistic	43%	37%	33%	38%	44%	43%	36%	28%	26%	27%	30%	40%	36%	38%	34%	25%	26%
Net % Dealer Optimism	-32%	-26%	-25%	-28%	-35%	-31%	-24%	-11%	-11%	-4%	-19%	-24%	-25%	-24%	-21%	-10%	-9%

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 January crop report was better than December, with the cash receipts proxy forecast up 8% year-over-year in 2016-17 vs. the prior estimate of up 7%. Corn and soybean forecasts increased 1% from December's estimate and wheat pricing was forecast up 3% from December.



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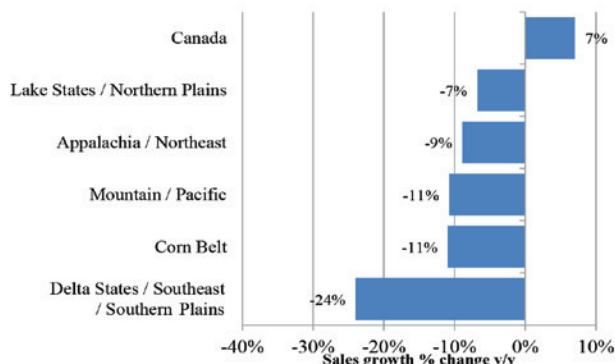
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NEW EQUIPMENT TRENDS

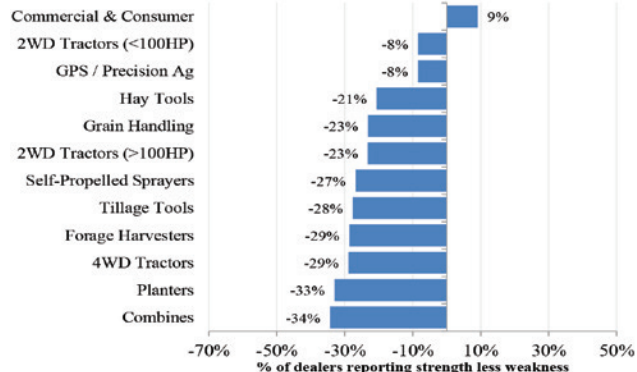
Average Sales Growth by Region



Source: Ag Equipment Intelligence

Sales trends by region were mostly negative in the month, with the exception of Canada, which has shown improvement over the past few months. The Delta/Southeast/Southern Plains region showed the largest decline in the month at down 24%.

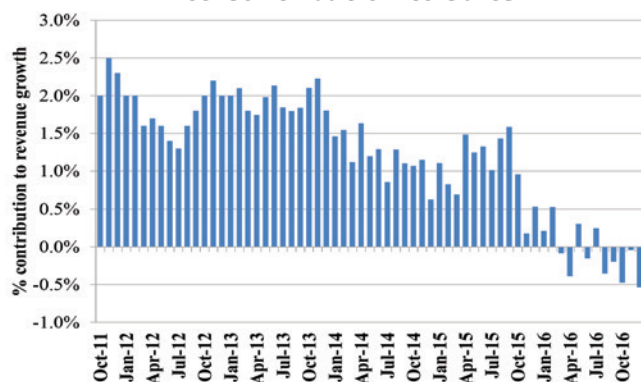
Equipment Category Sales Trends



Source: Ag Equipment Intelligence

Commercial & consumer lawn equipment was the only equipment category to show ongoing strength, while all other major categories — particularly planters, combines and 4WD tractors — continue to struggle for sales. While GPS/precision farming equipment had seen strength in the first half of 2016, trends have deteriorated over the past few months.

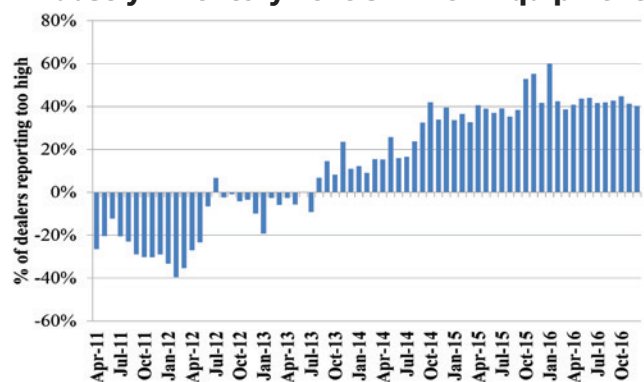
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Dealers once again reported flat pricing, as they have over the last few months, as incentive programs have more than offset list price increases.

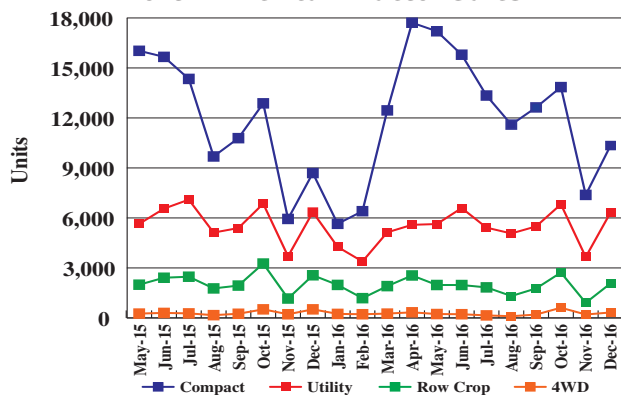
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 40% of dealers reported new equipment inventories are "too high" (45% too high, 50% about right, 5% too low), which is relatively in line with November's net 41% of dealers reporting "too high." New equipment inventory levels have been reported as "too high" for nearly 3 years.

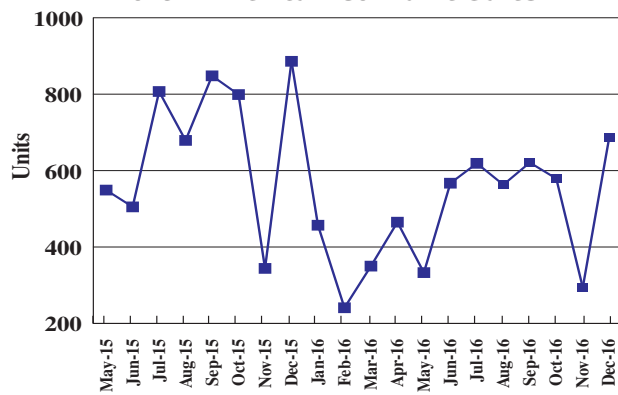
North American Tractor Sales



Source: AEM, Cleveland Research, Ag Equipment Intelligence

Total North American tractor sales were up 5% year-over-year in December vs. December 2015 on the strength of compact tractor sales.

North American Combine Sales

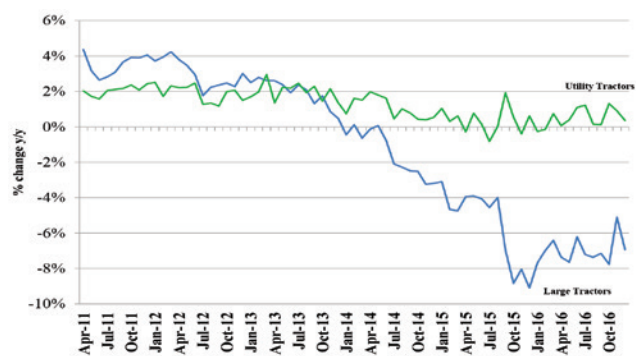


Source: AEM, Cleveland Research, Ag Equipment Intelligence

Total North American combine sales declined 22% in December 2016 vs. December of the previous year.

USED EQUIPMENT TRENDS

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



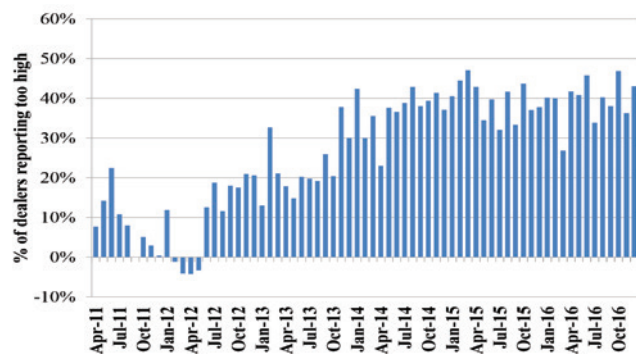
**Used Equipment Values vs. Last Year
Combines**



Pricing decreased slightly for used high horsepower equipment in December. Large tractors were reported down about 7% year-over-year, a small drop from the 6% decline reported in November.

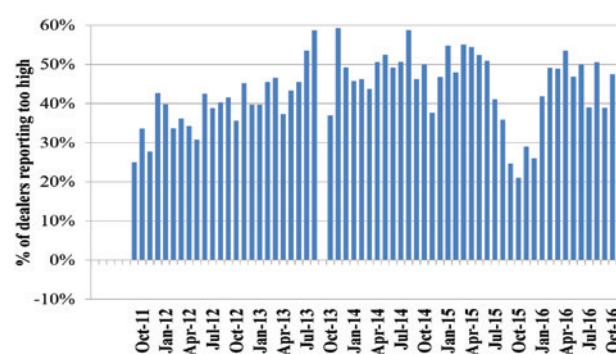
Used combine pricing was down 10% year-over-year in December, worse than the 8% decline in November.

Used Equipment Inventory



A net 43% of dealers reported used equipment inventory as "too high" (47% too high, 49% about right, 4% too low), worse than the 36% reporting heightened inventory in November.

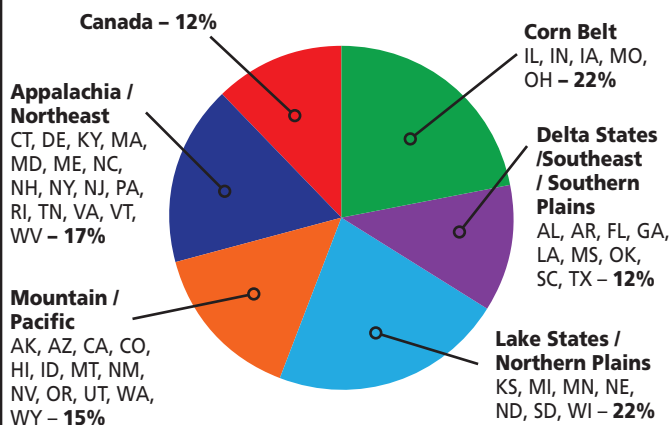
Used Combine Inventory



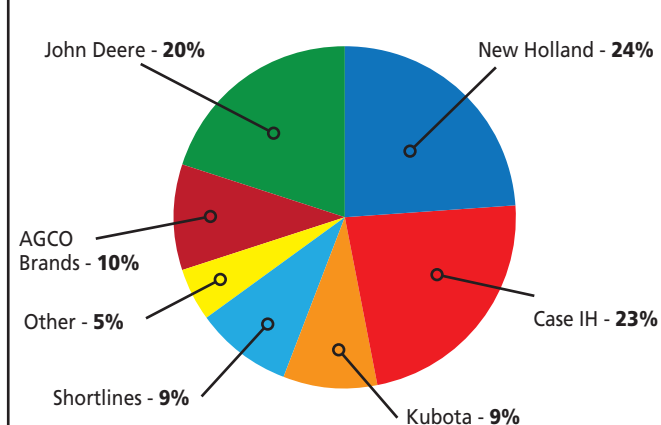
Used combine inventory levels were reported as "too high" by a net 39% of dealers in December, compared to November's reading of 33% and October's 48%.

JANUARY 2017 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The January survey had about 160 respondents representing combined annual revenues of roughly \$6 billion. By brand, 20% of respondents were John Deere dealers, 24% New Holland, 23% Case IH and 10% AGCO dealers.