

Dealer Sentiment & Business Conditions Update

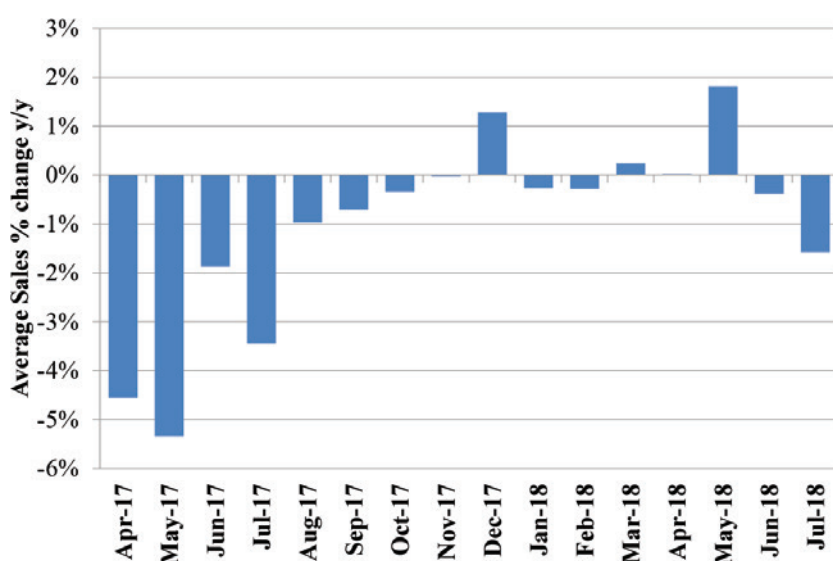
From the editors of Farm Equipment & analysts of Cleveland Research Co.

EXECUTIVE SUMMARY

Industry Sales Down in July

- ✓ Average dealer sales were reported down 2% year-over-year in July, falling from the flat growth in June. A net 15% of dealers missed their sales budgets in July vs. the net 13% in June.
- ✓ A net 21% of dealers reported their new equipment inventories were "too high" vs. the 14% in June.
- ✓ A net 19% of dealers reported their used equipment inventories were "too high" vs. the net 25% last month. Overall, inventories have come down from the highs seen in 2016.
- ✓ Dealers reported used equipment pricing in July had improved for small tractors, while large equipment values were similar to the prior month. Large tractor pricing was reported down 3% year-over-year, and combine pricing was reported down 5%, both in line with pricing trends from June.

Ag Equipment Dealer Survey – Monthly Sales Growth Trends



Source: Ag Equipment Intelligence, Cleveland Research

Results vs. Expectations

	Jul-15	Jul-16	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
Better than expected	18%	15%	16%	21%	21%	18%	21%	18%	13%	13%	11%	10%	22%	17%	10%
In line with expectations	45%	43%	48%	52%	47%	55%	60%	62%	65%	61%	60%	61%	50%	53%	66%
Worse than expected	36%	42%	36%	27%	32%	27%	20%	20%	22%	26%	29%	29%	28%	30%	24%
Net % (Better - Worse)	-18%	-28%	-19%	-6%	-11%	-8%	1%	-1%	-9%	-13%	-18%	-18%	-6%	-13%	-14%

2018 Full-Year Outlook: Sales Up 1%

- ✓ The 2018 forecast is for 1% year-over-year growth, in line with last month. A net 13% of dealers expected growth, a deterioration from the 32% last month. The initial 2019 forecast is for 1% year-over-year growth, with a net 26% of contacts expecting growth.
- ✓ John Deere dealers are the most optimistic about the year ahead, forecasting sales to be up 5%.

Dealer Outlook — 2018													
(% chg y/y)	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
AGCO	-6%	-8%	-7%	-7%	3%	-1%	-4%	4%	0%	-2%	5%	1%	2%
John Deere	-4%	3%	1%	0%	4%	2%	4%	1%	3%	-5%	-10%	3%	5%
New Holland	-2%	-4%	-8%	-14%	2%	-2%	1%	0%	0%	3%	4%	1%	-9%
Case IH	-6%	-3%	-8%	-1%	3%	4%	0%	-4%	-5%	5%	3%	3%	-4%
Kubota	11%	3%	-3%	-1%	1%	2%	1%	-1%	2%	3%	6%	2%	4%
Shortlines/Other	-3%	-1%	2%	-1%	-5%	4%	1%	-3%	3%	3%	0%	-1%	-3%
Overall	-3%	-1%	-3%	-2%	2%	2%	2%	1%	1%	1%	2%	1%	1%

Dealer Optimism Increases

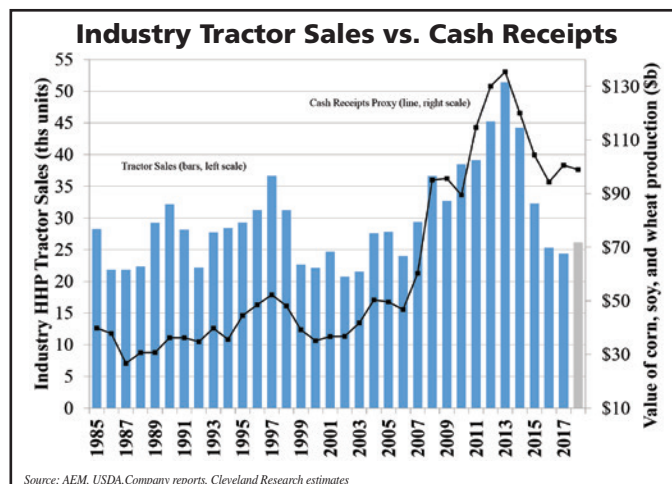
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, was 5% in July, a marked increase from -9% in May. This is the first month that dealer optimism has been in positive territory since a reading of 6% in April.

Optimism/Sentiment vs. Last Month													
	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18
More Optimistic	21%	23%	23%	22%	24%	28%	21%	21%	24%	26%	24%	21%	29%
Same	47%	52%	51%	56%	63%	53%	58%	58%	51%	54%	50%	48%	48%
Less Optimistic	32%	26%	26%	22%	14%	19%	21%	21%	25%	20%	26%	30%	23%
Net % Dealer Optimism	-11%	-3%	-3%	0%	10%	9%	0%	0%	-1%	6%	-2%	-9%	5%

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 July crop report was unchanged from the previous month, with 2018-19 cash receipts proxy forecast up 4%. Corn cash receipt forecasts are for 6% growth, wheat forecasts are up 16%, and soybean forecasts are down 1% year-over-year.



The contents of this report represent our interpretation and analysis of information generally available to the public or released by responsible individuals in the subject companies, but is not guaranteed as to accuracy or completeness. It does not contain material provided to us in confidence by our clients.

Individual companies reported on and analyzed by Lessiter Media, may be clients of this and other Lessiter Media services.

This information is not furnished in connection with a sale or offer to sell securities or in connection with the solicitation of an offer to buy securities.

DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is a joint project of the editors of *Ag Equipment Intelligence* and research team at the Cleveland Research Co. DEALER SENTIMENTS & BUSINESS CONDITIONS UPDATE is published monthly by Lessiter Media, 16655 W. Wisconsin Ave., Brookfield, WI 53005. and distributed to subscribers of *Ag Equipment Intelligence* as well as to dealers participating in the survey.

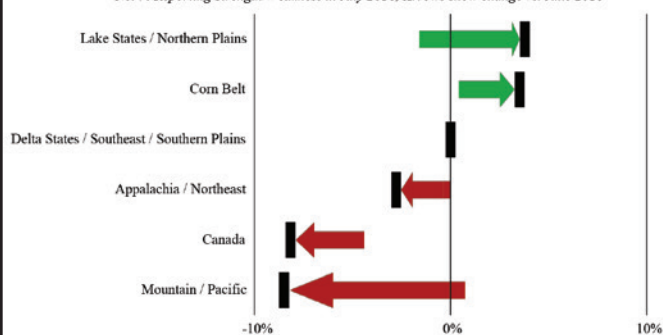
© 2018 by Lessiter Media. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher.

U.S., Canada and Mexico print subscriptions are \$499 per year. International subscriptions are \$599 per year. Send subscription orders and address changes to: Ag Equipment Intelligence, P.O. Box 1024, Skokie, IL 60076-1024. Phone: 800-277-1570 or 847-513-6059. Fax: 847-564-9453 (U.S. only). E-mail: aei@omeda.com.

NEW EQUIPMENT TRENDS

Average Sales Growth by Region

Net % Reporting Strength/Weakness in July 2018; Arrows show change vs. June 2018

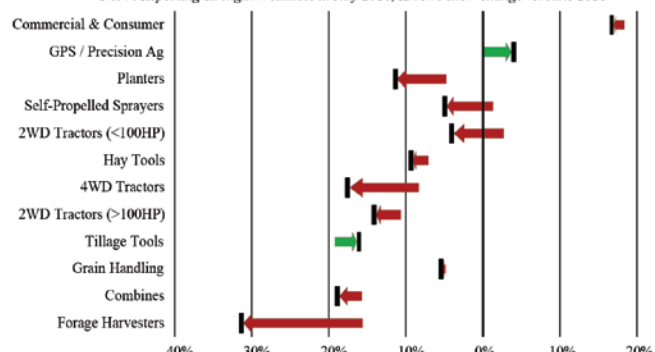


Source: Ag Equipment Intelligence

Sales trends by region declined in half of the regions in July vs. improvement in half of the regions in 2Q. The Lake States/Northern Plains and the Corn Belt regions saw improvement while the Mountain/Pacific region saw the greatest declines from last month.

Equipment Category Sales Trends

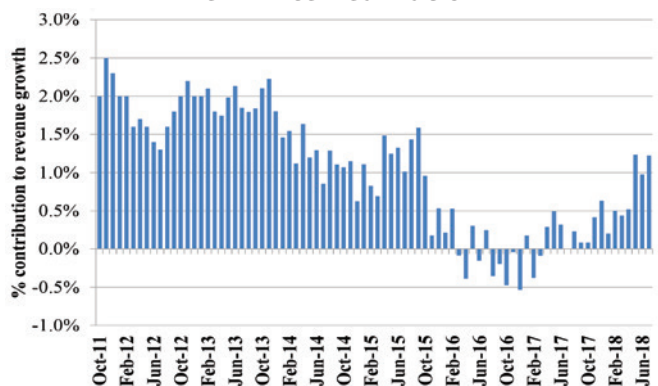
Net % Reporting Strength/Weakness in July 2018; Arrows show change vs. June 2018



Source: Ag Equipment Intelligence

Sales by product category deteriorated from June and 2Q following overall sequential improvement in 1Q. Forage harvesters and 4WD tractors showed the greatest sequential declines in July. Commentary suggests large equipment inventories remain too high while small tractor inventories are too low.

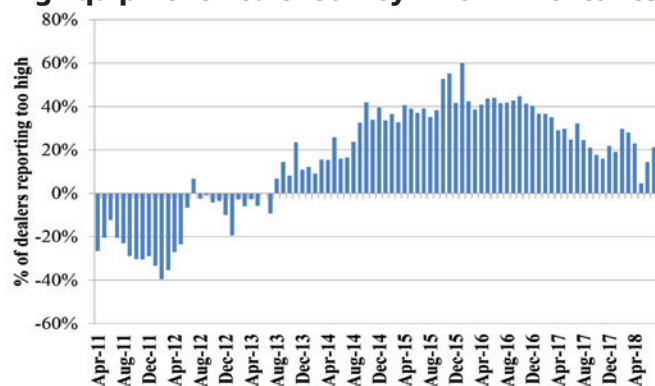
New Price Realization



Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends have improved over the past few months. Commentary suggests dealers continue to receive price increases from manufacturers and expect to see an impact in 2H18.

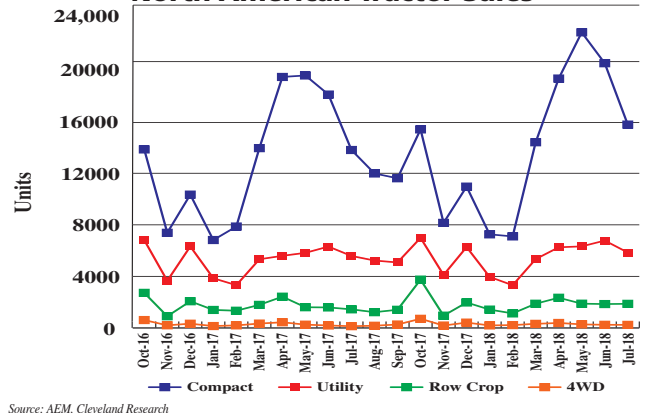
Ag Equipment Dealer Survey – New Inventories



Source: Ag Equipment Intelligence

New equipment inventory levels were higher in July with a net 21% of dealers reporting inventories too high (35% too high, 50% in line, 14% too low) vs. the net 14% in June.

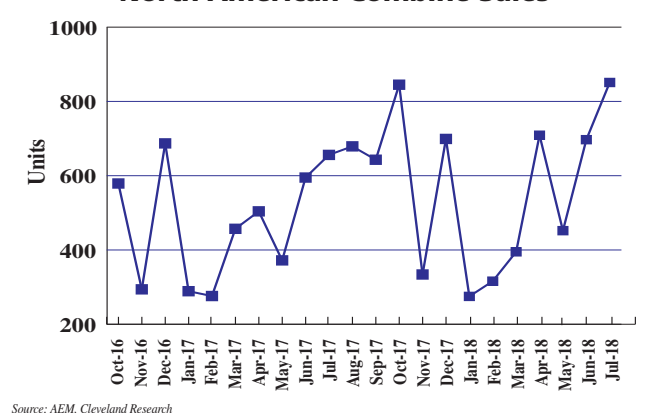
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 13% year-over-year in July, with 4WD tractor sales up 75%. Row-crop tractor unit sales were up 30%, under 40 horsepower tractor sales were up 16% and utility tractors were down 1%.

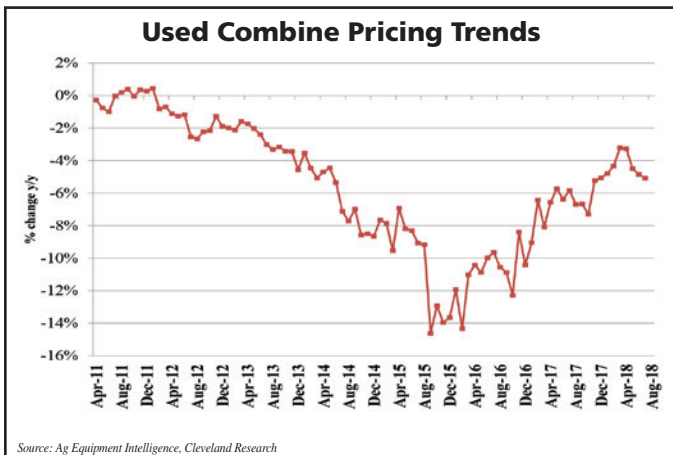
North American Combine Sales



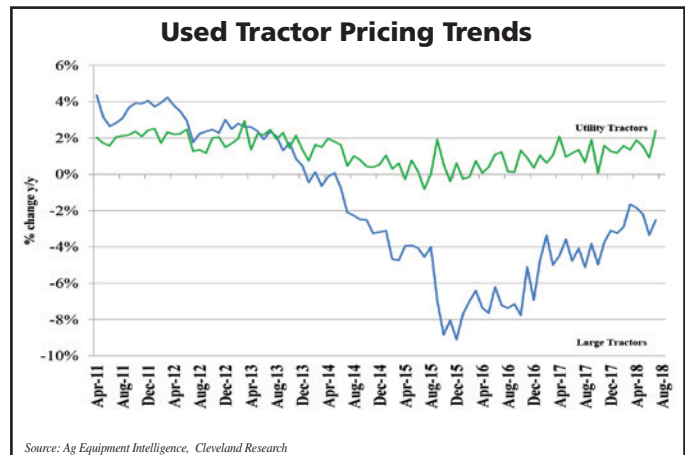
Source: AEM, Cleveland Research

Total North American combine sales were up 30% in July vs. an increase of 18% year-over-year in the previous survey.

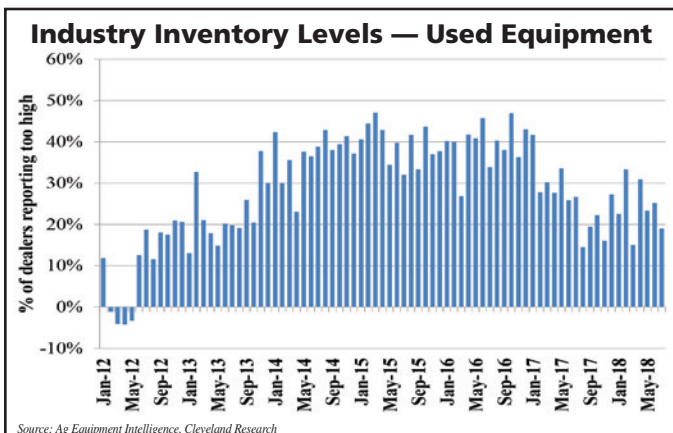
USED EQUIPMENT TRENDS



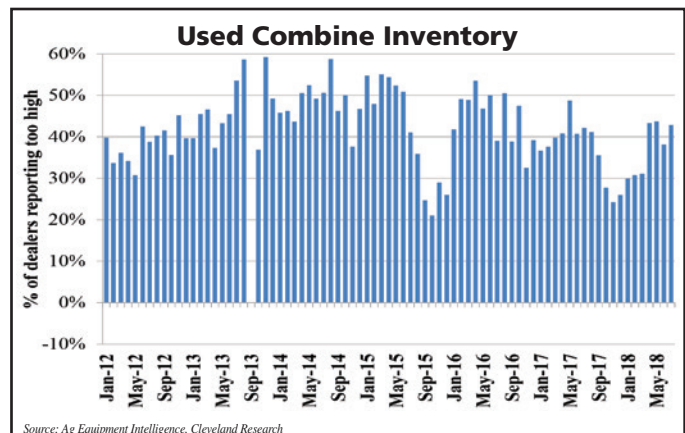
Used combine prices were reported down 5%, also in line with last month.



Large used equipment pricing was in line with June, with large tractors reported down 3% year-over-year.

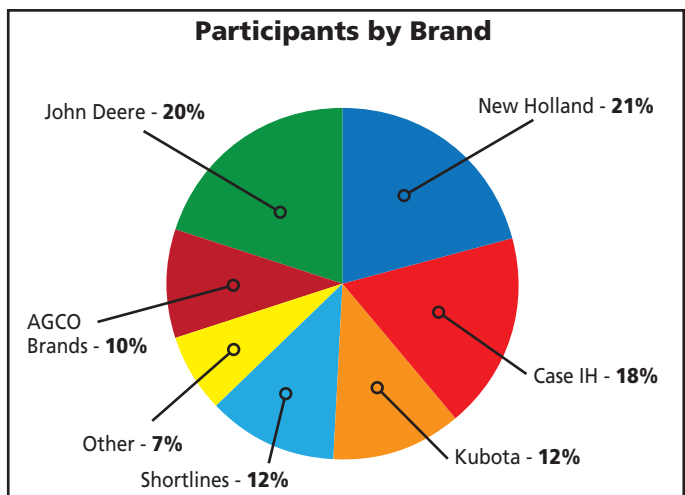
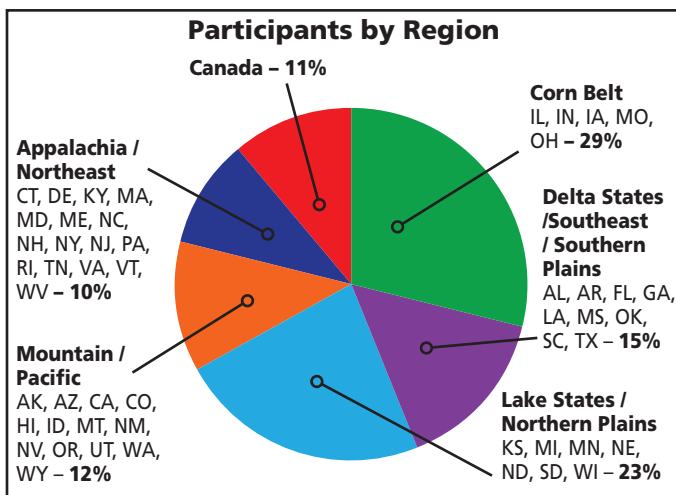


Used inventory levels were reported as “too high” by a net 19% of dealers in July (31% too high, 57% about right, 12% too low), below the 25% in June and the 26% average in 2017.



Used combine inventory remained elevated in the month with a net 43% of dealers reporting inventories as too high in July, higher than the net 38% in June and the 37% average in 2017.

AUGUST 2018 SURVEY RESPONDENTS



The August survey had about 140 respondents representing combined annual revenues of roughly \$5 billion. By brand, 21% were New Holland dealers, 20% John Deere, 18% Case IH, 12% Kubota, 10% AGCO and 19% were Shortline/Other dealers.