

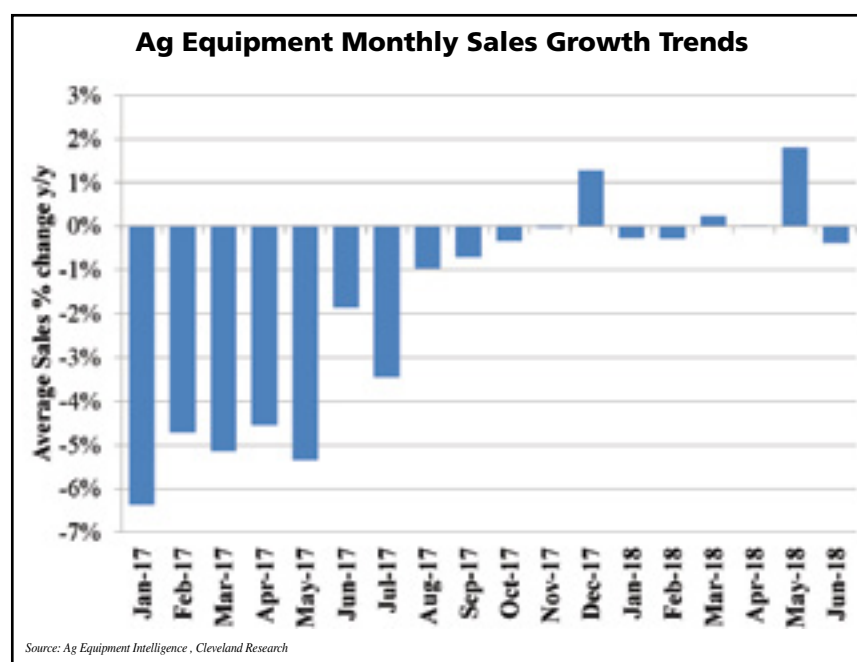
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Flat in June

- ✓ Average dealer sales were reported flat year-over-year in June, falling from the 2% growth in May. A net 13% of dealers missed their sales budgets in June vs. the net 6% in May.
- ✓ A net 14% of dealers reported their new equipment inventories were "too high," vs. the 5% in May.
- ✓ A net 25% of dealers reported their used equipment inventories were "too high," similar to the previous month. Overall, inventories have come down from 2016 levels.
- ✓ Dealers reported new equipment pricing softening in June after several months of improvement. Large tractor pricing was reported down 3% year-over-year vs. down 2% in May, and combine pricing was reported down 5%, also deteriorating from last month.



Results vs. Expectations															
	Jun-15	Jun-16	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Better than expected	21%	22%	16%	16%	21%	21%	18%	21%	18%	13%	13%	11%	10%	22%	17%
In line with expectations	48%	40%	65%	48%	52%	47%	55%	60%	62%	65%	61%	60%	61%	50%	53%
Worse than expected	31%	38%	19%	36%	27%	32%	27%	20%	20%	22%	26%	29%	29%	28%	30%
Net % (Better - Worse)	-10%	-17%	-3%	-19%	-6%	-11%	-8%	1%	-1%	-9%	-13%	-18%	-18%	-6%	-13%

2018 Full-Year Outlook: Sales Up 1%

- ✓ The 2018 forecast is for 1% year-over-year growth, down from the 2% forecast in April and May. A net 32% of dealers expected growth, an improvement from last month and the 16% of contacts expecting growth in 1Q.
- ✓ John Deere and Case IH dealers are the most optimistic about the year ahead, forecasting sales to be up 3%.

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

Dealer Optimism Drops Slightly

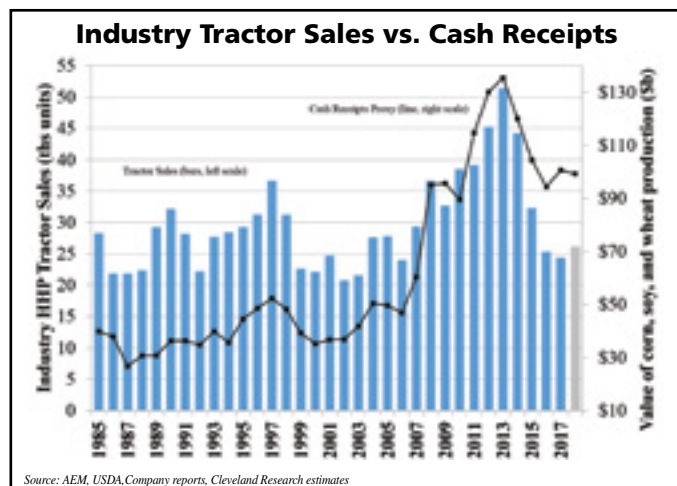
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, dropped to -9% in June, down further from a reading of -2% in May. Dealer optimism has fallen in the last couple months following a reading of 6% in April.

Optimism/Sentiment vs. Last Month													
	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
More Optimistic	23%	21%	23%	23%	22%	24%	28%	21%	21%	24%	26%	24%	21%
Same	58%	47%	52%	51%	56%	63%	53%	58%	58%	51%	54%	50%	48%
Less Optimistic	19%	32%	26%	26%	22%	14%	19%	21%	21%	25%	20%	26%	30%
Net % Dealer Optimism	4%	-11%	-3%	-3%	0%	10%	9%	0%	0%	-1%	6%	-2%	-9%

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 softer from the previous month, with 2018-19 cash receipts proxy forecast up 4% vs. up 8% in June largely driven by declines in soybean pricing. Corn cash receipt forecasts are for 9% growth, wheat forecasts are up 14%, and soybean forecasts are down 3% year-over-year.



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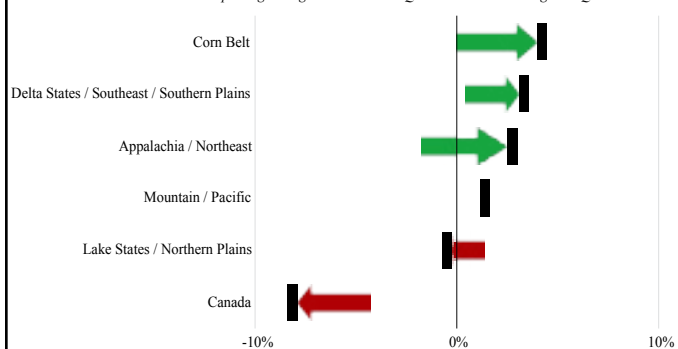
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NEW EQUIPMENT TRENDS

Average Sales Growth by Region

Net % Reporting Strength/Weakness in 2Q18 Arrows show change vs. 1Q18

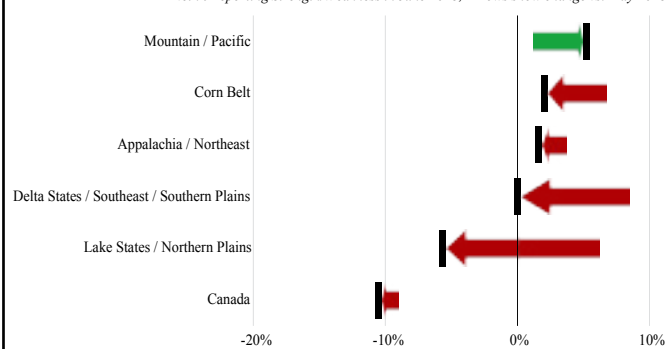


Source: Ag Equipment Intelligence

Sales trends by region declined in 5 of the 6 regions in June vs. improvement in half of the regions in 2Q. The Corn Belt was the strongest region in 2Q and showed the greatest improvement from 1Q. Canada was the weakest region in both June and 2Q.

Equipment Category Sales Trends

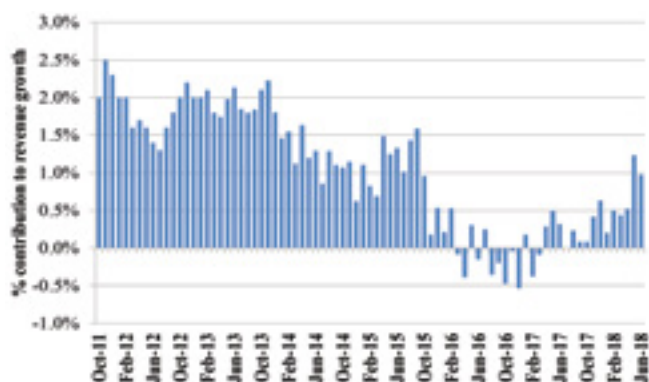
Net % Reporting Strength/Weakness in June 2018; Arrows show change vs. May 2018



Source: Ag Equipment Intelligence

Sales by product category was mixed in June and 2Q following overall sequential improvement in 1Q. 4WD tractors showed the greatest improvement from 1Q while tillage tools showed the greatest sequential declines. More than half of equipment categories decline in June, but large equipment showed the greatest improvement.

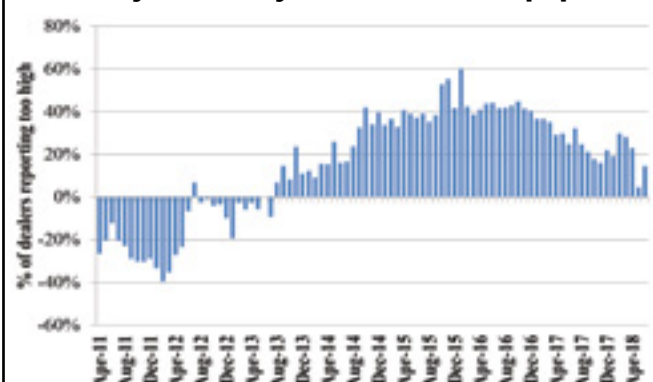
Price Contribution to Sales



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 in the 2-5% range due to steel surcharges.

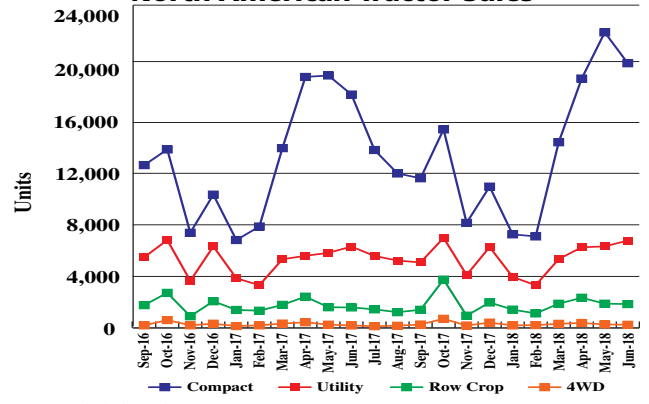
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

New equipment inventory levels were higher in June with a net 14% of dealers reporting inventories too high (30% too high, 54% in line, 16% too low) vs the 5% in May.

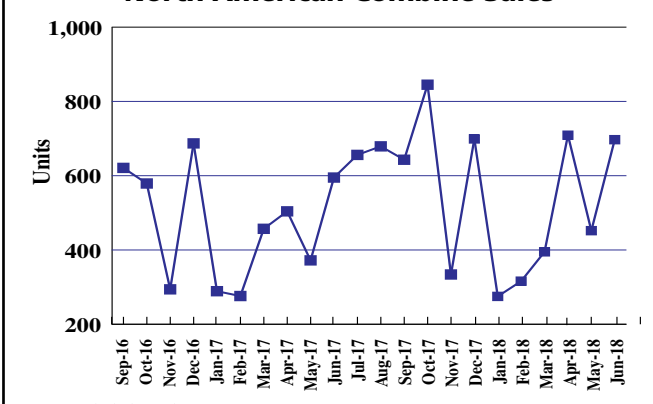
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 12% year-over-year in June, with 4WD tractor sales up 28%. Row-crop tractor unit sales were up 17%, <40 horsepower tractors were up 15% and utility tractors were up 4%.

North American Combine Sales

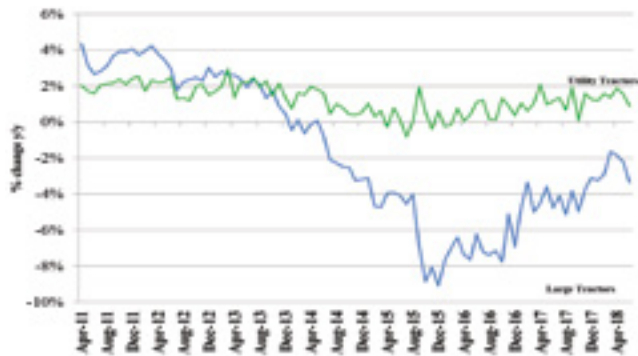


Source: AEM, Cleveland Research

Total North American combine sales were up 18% in June vs. an increase of 22% year-over-year in May.

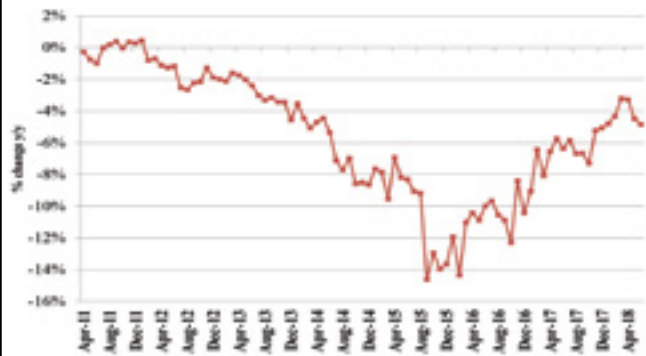
USED EQUIPMENT TRENDS

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



Source: Ag Equipment Intelligence, Cleveland Research

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

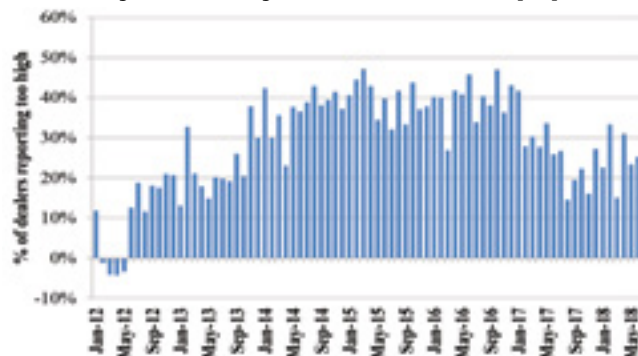


Source: Ag Equipment Intelligence, Cleveland Research

Large tractors were reported down 3% year-over-year vs. down 2% in May, and used combine prices were reported down 5%, also deteriorating from last month.

Used equipment pricing softened in June after several months of improvement.

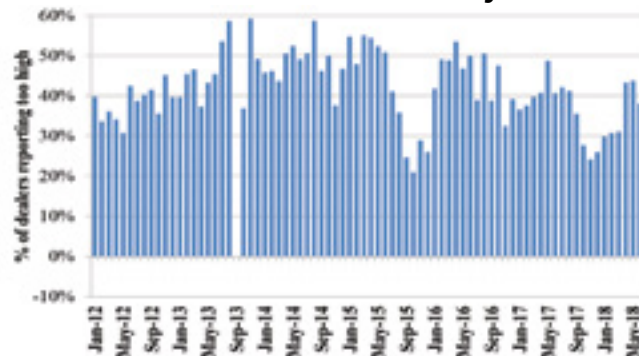
Industry Inventory Levels — Used Equipment



Source: Ag Equipment Intelligence, Cleveland Research

Used inventory levels were reported as “too high” by a net 25% of dealers in June (37% too high, 51% about right, 12% too low), similar to the 23% in May and the 26% average in 2017.

Used Combine Inventory

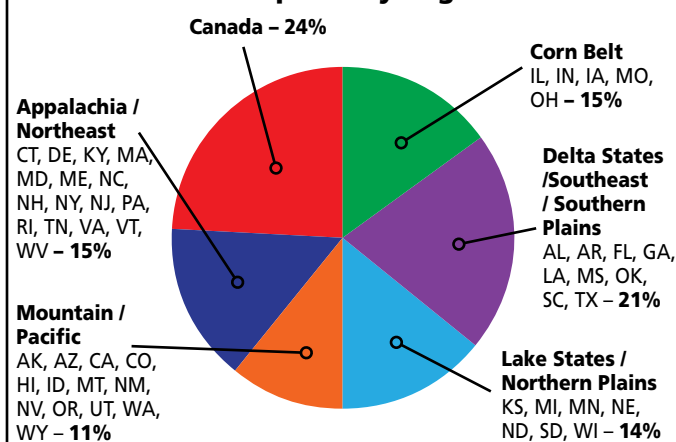


Source: Ag Equipment Intelligence, Cleveland Research

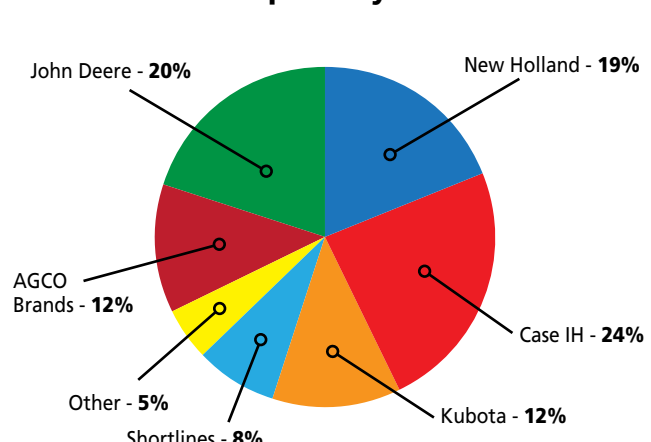
Used combine inventory remained elevated in the month with a net 38% of dealers reporting inventories as too high in June, a slight improvement from the net 44% of May and about the same as the 37% average in 2017.

JULY 2018 SURVEY RESPONDENTS

Participants by Region



Participants by Brand



The July survey had about 100 respondents representing combined annual revenues of roughly \$4 billion. By brand, 24% of respondents were Case IH dealers, 20% John Deere, 19% New Holland, 12% AGCO, 12% Kubota, and 13% were Shortline/Other dealers.