

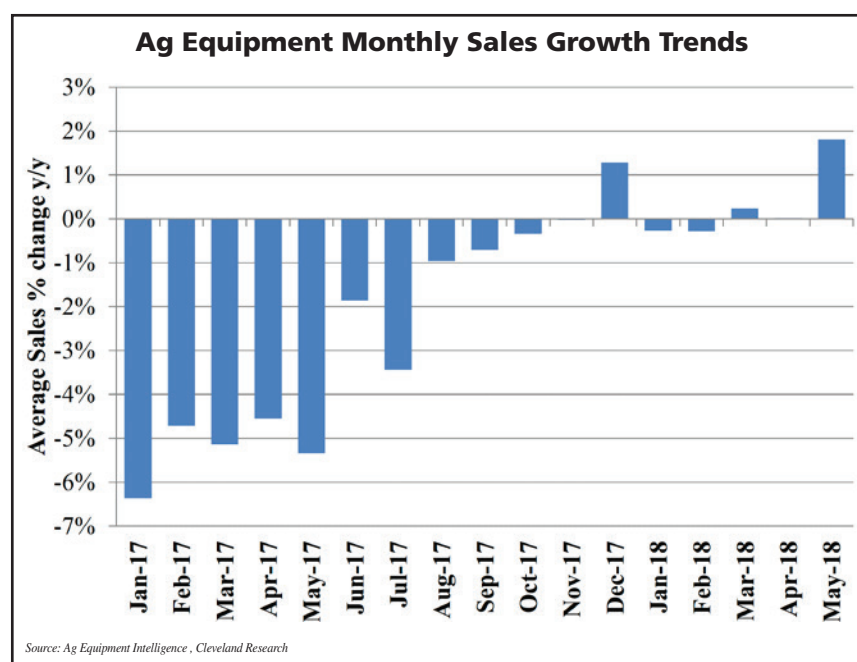
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Up in May

- ✓ Average dealer sales were reported up 2% year-over-year in May, an improvement from April's flat sales.
- ✓ A net 5% of dealers reported their **new equipment inventories** were "too high" (24% too high, 57% about right, 19% too low) improving notably from the 23% reporting heightened inventory in April.
- ✓ A net 22% of dealers reported their **used equipment inventories** were "too high" (34% too high, 56% about right, 12% too low) vs. 31% the previous month. Overall, inventories have come down significantly from 2016 levels.
- ✓ Dealers reported **new equipment** pricing improved notably in May and was the highest reading since 2015. **Used tractor pricing** remained solid for the month at down 2% and combine prices down 4%.



Results vs. Expectations															
	May-15	May-16	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Better than expected	24%	21%	19%	16%	16%	21%	21%	18%	21%	18%	13%	13%	11%	10%	22%
In line with expectations	39%	46%	52%	65%	48%	52%	47%	55%	60%	62%	65%	61%	60%	61%	50%
Worse than expected	37%	34%	30%	19%	36%	27%	32%	27%	20%	20%	22%	26%	29%	29%	28%
Net % (Better - Worse)	-13%	-13%	-11%	-3%	-19%	-6%	-11%	-8%	1%	-1%	-9%	-13%	-18%	-18%	-6%

2018 Full-Year Outlook: Sales Up 2%

- ✓ The 2018 forecast is for 2% year-over-year growth, in line with April. A net 19% of dealers are expecting growth, better than the 10% in the previous month and the net 16% of dealers expecting growth in 1Q.
- ✓ Kubota dealers are the most optimistic about the year ahead, forecasting sales to be up 6%.

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

Dealer Optimism Drops

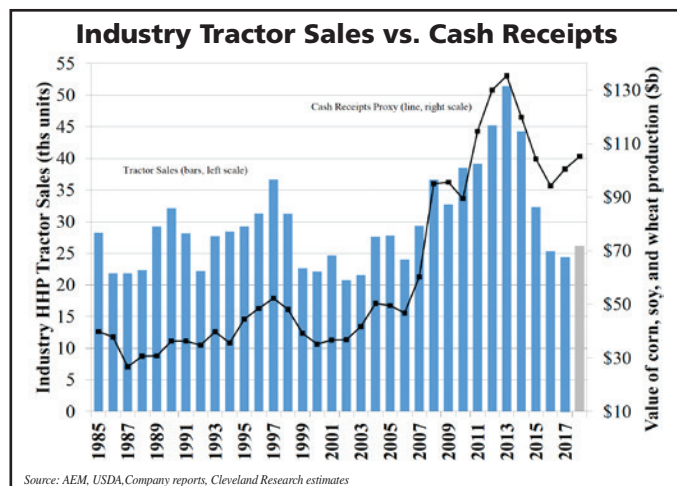
Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, dropped to -2% in May, falling from +6% in April. Overall dealer optimism has been up and down recent months, following 4 straight months of growing optimism from October 2017 to January 2018.

Optimism/Sentiment vs. Last Month													
	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
More Optimistic	19%	23%	21%	23%	23%	22%	24%	28%	21%	21%	24%	26%	24%
Same	61%	58%	47%	52%	51%	56%	63%	53%	58%	58%	51%	54%	50%
Less Optimistic	20%	19%	32%	26%	26%	22%	14%	19%	21%	21%	25%	20%	26%
Net % Dealer Optimism	-2%	4%	-11%	-3%	-3%	0%	10%	9%	0%	0%	-1%	6%	-2%

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 June crop report was strong, with 2018-19 cash receipts proxy forecast up 8% vs. up 6% in May. Corn cash receipt forecasts are now for 10% growth vs. 7% last month, wheat forecasts are now up 13% vs. up 10% in May, and soybean forecasts are unchanged at up 4% 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.

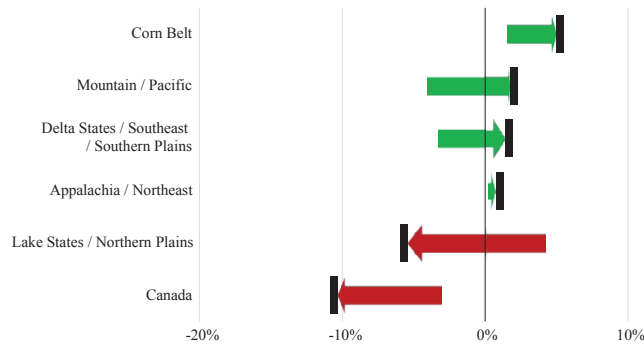
© 2018 by Lessiter Media. All rights reserved. Reproduction in any form of this newsletter content is strictly forbidden without the prior written consent of the publisher.

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 April 2018; Arrows show change vs. March 2018

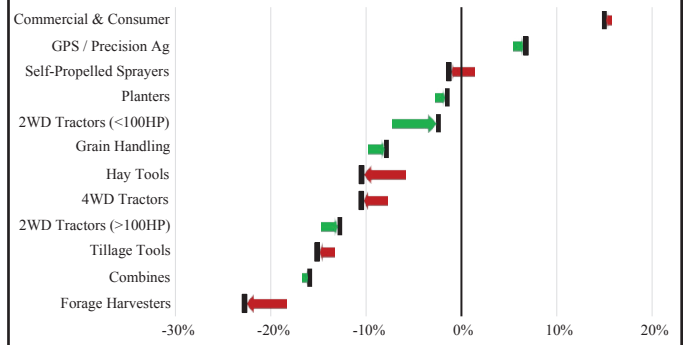


Source: Ag Equipment Intelligence

Sales trends by region improved in 4 of the 6 regions in May vs. declines in 5 of the 6 regions in 1Q. The Lake States/Northern Plains region saw the greatest improvement from April. Canada was the weakest region in May and in the 1Q but improved slightly from April.

Equipment Category Sales Trends

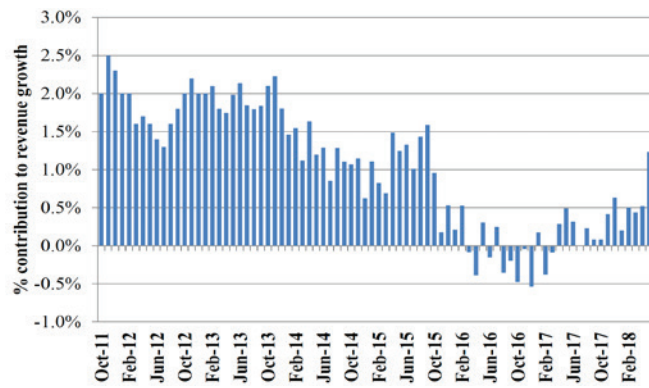
Net % Reporting Strength/Weakness in April 2018; Arrows show change vs. March 2018



Source: Ag Equipment Intelligence

Sales by product category broadly improved in May following overall sequential improvement from 4Q17 to 1Q18. Hay tools showed the greatest improvement from April, while grain handling saw the greatest declines.

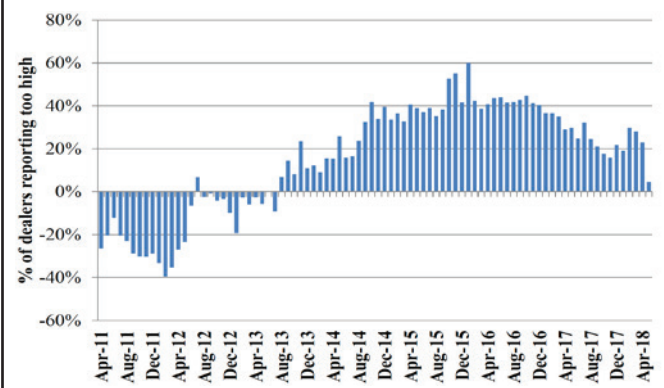
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends improved notably in May and marked the highest reading since 2015. Commentary suggests dealers continue to receive price increases from manufacturers in the 2-5% range due to steel surcharges.

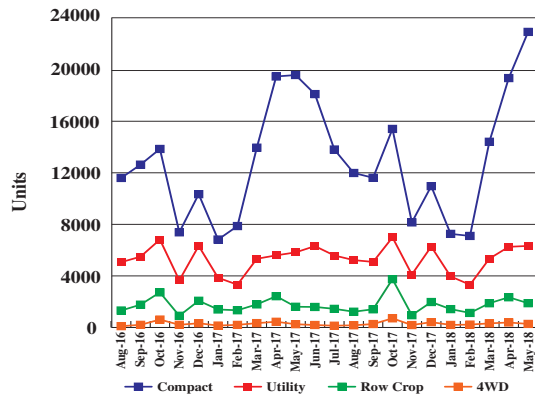
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

New equipment inventory levels notably improved in May, with a net 5% of dealers reporting inventories too high (24% too high, 57% in line, 19% too low) vs. 23% in April.

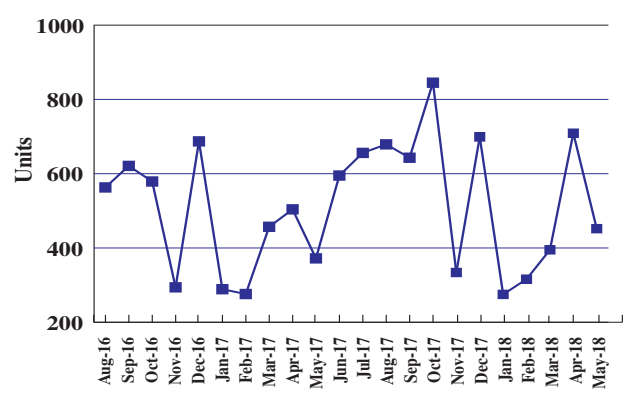
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were up 15% year-over-year in May, with <40 horsepower and row-crop tractors unit sales both up 18% year-over-year. Utility tractor sales were up 6% for the month and 4WD tractors were up 8%.

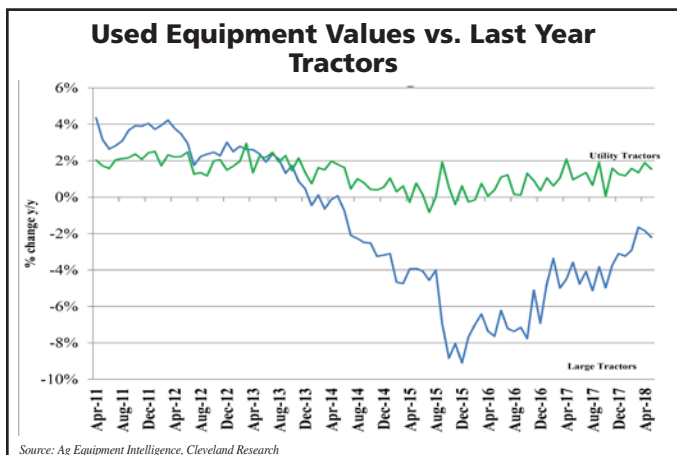
North American Combine Sales



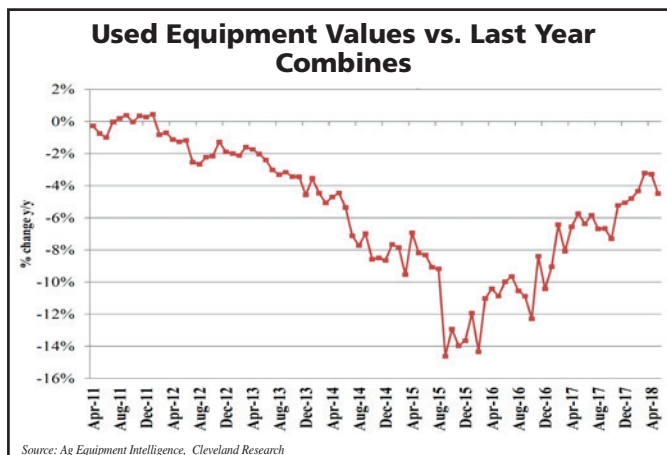
Source: AEM, Cleveland Research

Total North American combine sales were up 22% in May, down from the 41% increase observed in April.

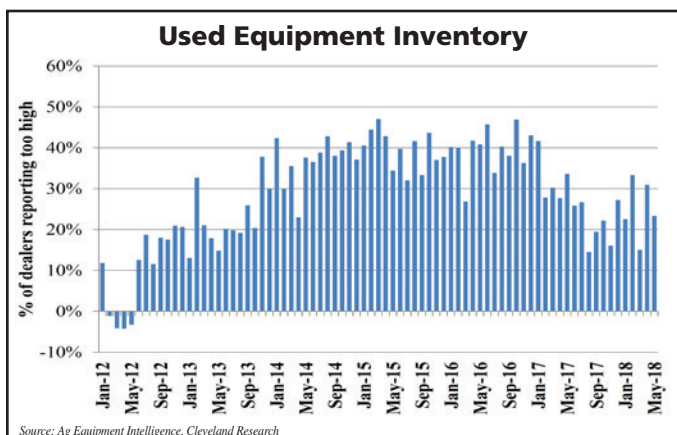
USED EQUIPMENT TRENDS



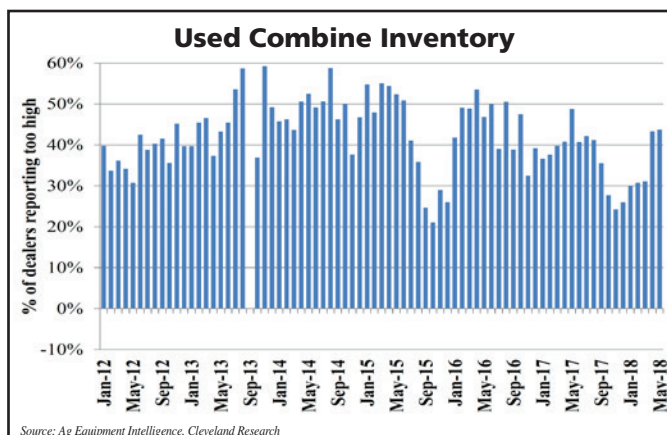
Large tractor prices were reported down 2% year-over-year, in line with April, and used equipment pricing trends remain solid and unchanged from last month, with used tractor prices at down 2%.



Used combine prices were reported down 4% vs. down 3% in April.

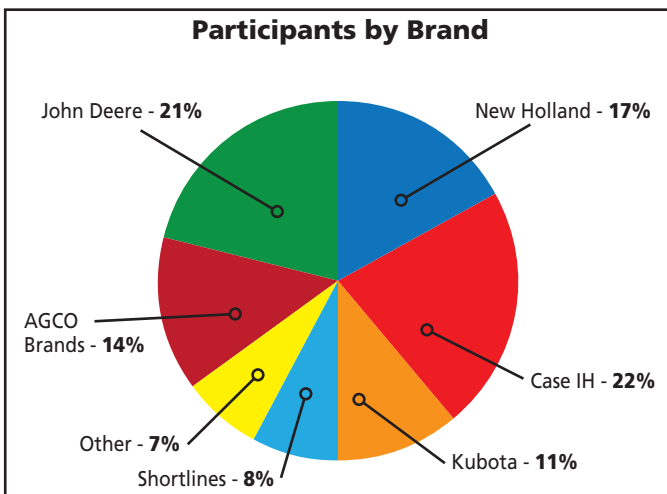
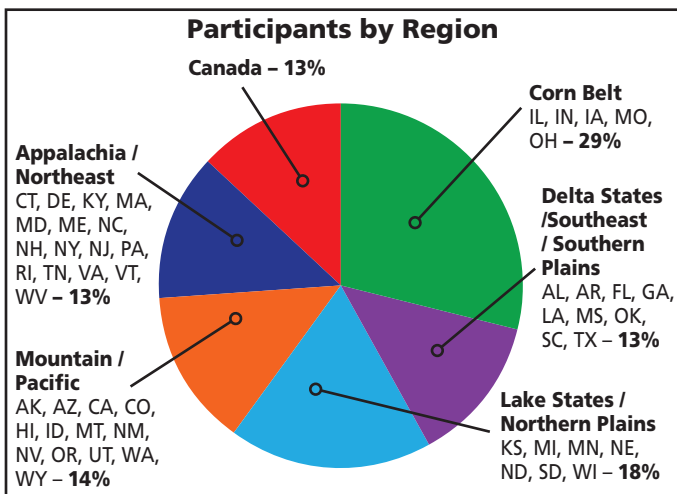


A net 22% of dealers reported used equipment inventory as "too high," an improvement from the 31% in April and the 26% in 2017.



Used combine inventory levels were reported as "too high" by a net 43% of dealers in May, similar to the net 43% in April and the 37% in 2017.

JUNE 2018 SURVEY RESPONDENTS



The May survey had about 130 respondents representing combined annual revenues of roughly \$5 billion. By brand, 22% of respondents were Case IH dealers, 21% John Deere, 17% New Holland, 14% AGCO, 11% Kubota and 15% were Shortline/Other dealers.