

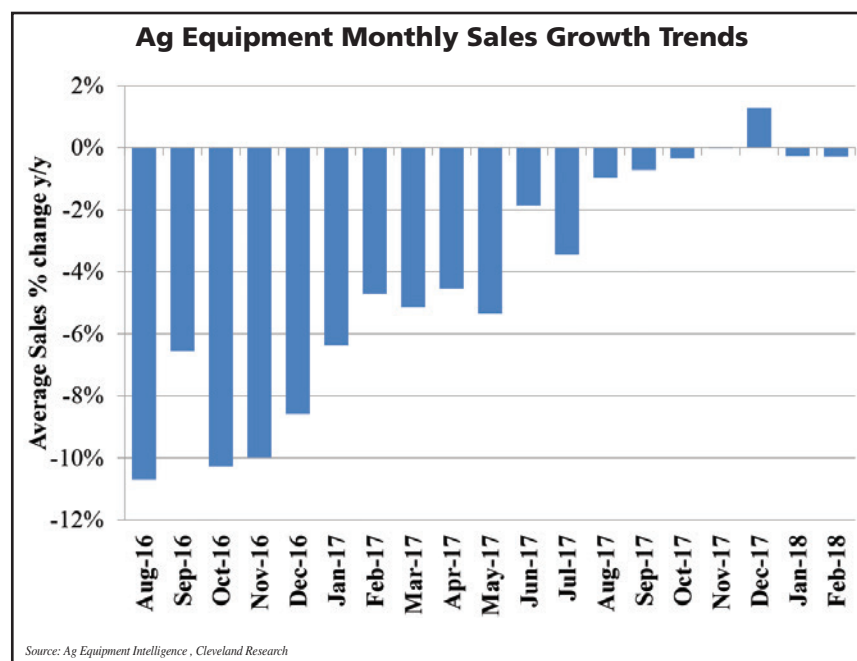
Dealer Sentiment & Business Conditions Update

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

EXECUTIVE SUMMARY

Industry Sales Flat in February

- ✓ Average dealer sales were reported flat year-over-year in February, in line with January but down from 1% sales growth in December.
- ✓ A net 30% of dealers reported their new equipment inventories are "too high," worse than the net 19% in January.
- ✓ A net 33% of dealers reported their used equipment inventories were "too high," vs. 23% the previous month.
- ✓ Dealers reported new equipment pricing improved in the month, and commentary suggests 2-3% price increases were issued in January and February. Used pricing trends were largely unchanged from January with large tractors reported down 3% year-over-year and combine pricing down 4%.



Results vs. Expectations															
	Feb-15	Feb-16	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
Better than expected	13%	15%	11%	12%	16%	19%	16%	16%	21%	21%	18%	21%	18%	13%	13%
In line with expectations	59%	47%	58%	58%	54%	52%	65%	48%	52%	47%	55%	60%	62%	65%	61%
Worse than expected	28%	38%	31%	30%	30%	30%	19%	36%	27%	32%	27%	20%	20%	22%	26%
Net % (Better - Worse)	-14%	-22%	-20%	-18%	-15%	-11%	-3%	-19%	-6%	-11%	-8%	1%	-1%	-9%	-13%

2018 Full-Year Outlook: Sales Up 1%

- ✓ The 2018 forecast is for 1% year-over-year growth, down from the 2% in January, with a net 10% of dealers expecting growth in February vs. the 23% of dealers expecting growth in January. Of the dealers who responded to the survey, 40% believe the tax bill will have a moderate (1-5%) positive impact on sales of machinery equipment in 2018 vs. 45% last month.
- ✓ AGCO dealers are the most optimistic, forecasting sales to improve by 4% in 2018. Case IH dealers are the least optimistic, calling for sales to be down 4% this year.

Dealer Outlook — 2017													
(% chg y/y)	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
AGCO	2%	-5%	-3%	-6%	-4%	-6%	-8%	-7%	-7%	3%	-1%	-4%	4%
John Deere	-3%	-3%	0%	0%	3%	-4%	3%	1%	0%	4%	2%	4%	1%
New Holland	-3%	-5%	-11%	-4%	0%	-2%	-4%	-8%	-14%	2%	-2%	1%	0%
Case IH	-3%	-6%	-4%	-3%	-6%	-6%	-3%	-8%	-1%	3%	4%	0%	-4%
Kubota	3%	4%	1%	1%	3%	11%	3%	-3%	-1%	1%	2%	1%	-1%
Shortlines/Other	-2%	-6%	-10%	2%	0%	-3%	-1%	2%	-1%	-5%	4%	1%	-3%
Overall	-2%	-4%	-4%	-2%	0%	-3%	-1%	-3%	-2%	2%	2%	2%	1%

Dealer Optimism Remains Neutral

Our Dealer Optimism Index, which measures sentiment among dealers compared to the prior month, remained neutral in February. A net 0% of dealers reporting being more optimistic compared to the month before. This is unchanged from January.

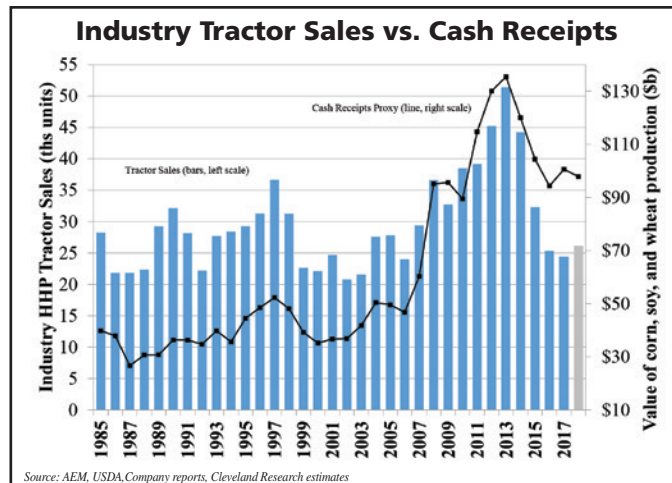
Optimism/Sentiment vs. Last Month													
	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18
More Optimistic	21%	26%	17%	19%	23%	21%	23%	23%	22%	24%	28%	21%	21%
Same	60%	47%	53%	61%	58%	47%	52%	51%	56%	63%	53%	58%	58%
Less Optimistic	19%	27%	30%	20%	19%	32%	26%	26%	22%	14%	19%	21%	21%
Net % Dealer Optimism	1%	-1%	-13%	-2%	4%	-11%	-3%	-3%	0%	10%	9%	0%	0%

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 March crop report was similar to February with cash receipts proxy forecast down 3% year-over-year in 2017-18. Corn cash receipt forecasts improved to down 4% vs. down 5% previously on better pricing, while wheat improved to down 10% vs. down 11% previously, and soybean forecasts were unchanged at flat year-over-year.

USDA released its annual long-term forecasts in February, which highlights 2018-19 cash receipts improving to down 1% and 1-2% growth from 2019-20 to 2027-28.



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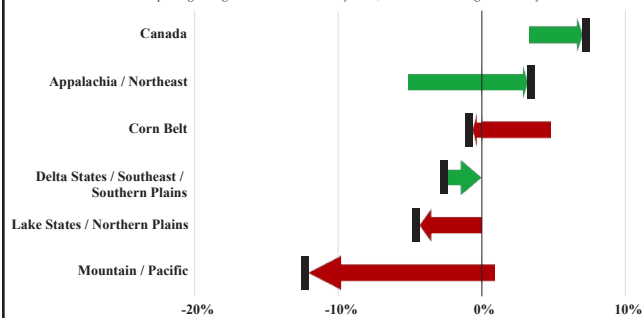
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NEW EQUIPMENT TRENDS

Average Sales Growth by Region

Average Sales Growth by Region - February 2018
Net % Reporting Strength/Weakness in February 2018; Arrows show change vs. January 2018

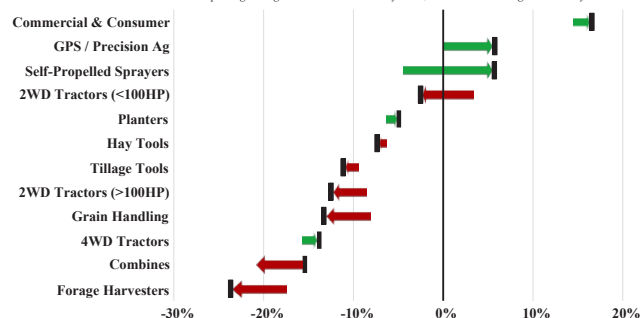


Source: Ag Equipment Intelligence

Sales trends by region improved in half of the regions in February vs. improvement in 5 of the 6 regions in 4Q. Canada was the strongest region in the month, while the Appalachia/Northeast region saw the greatest improvement from January. The Corn Belt and Mountain/Pacific region saw a sequential softening from January, which commentary suggests is weather related.

Equipment Category Sales Trends

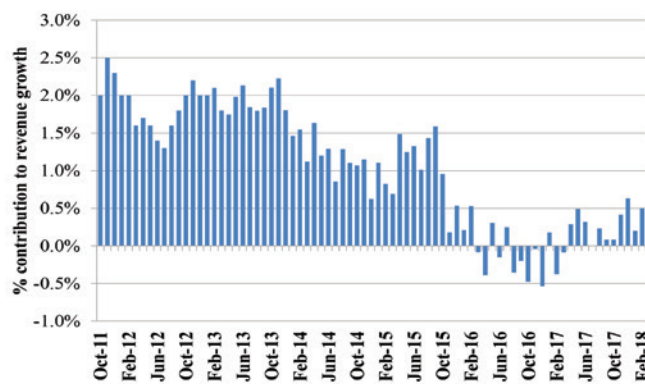
Sales by Product Category- February 2018
Net % Reporting Strength/Weakness in February 2018; Arrows show change vs. January 2018



Source: Ag Equipment Intelligence

Sales by product category were mixed in February, while nearly all product categories saw sequential improvement from 3Q to 4Q. Commercial & consumer products saw continued strength. Commentary suggests self-propelled sprayer, small tractors and precision ag demand improved but combines and large tractor demand remains weak.

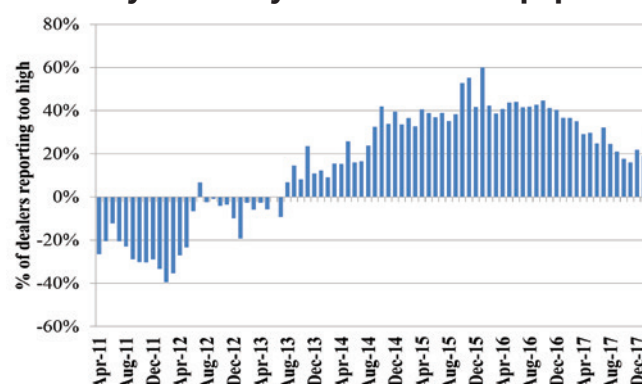
Price Contribution to Sales



Source: Ag Equipment Intelligence, Cleveland Research

Pricing trends improved in the month suggesting 1Q price increases have been implemented. Commentary continues to suggest 2-3% price increases were issued in January and February.

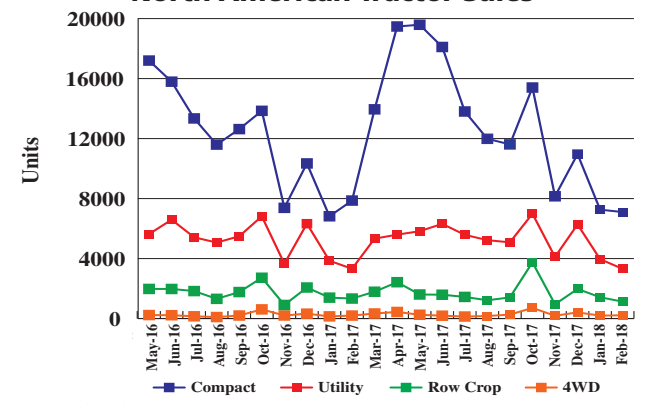
Industry Inventory Levels — New Equipment



Source: Ag Equipment Intelligence

A net 30% of dealers reported new equipment inventories were "too high" (36% too high, 59% about right, 6% too low), worse than the 19% in January.

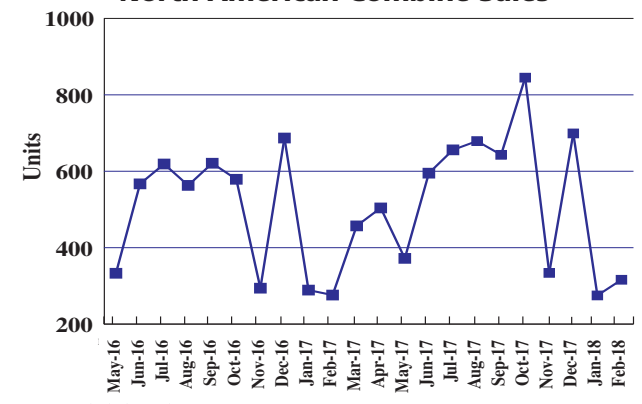
North American Tractor Sales



Source: AEM, Cleveland Research

Total North American tractor sales were down 8% year-over-year in February, with row-crop tractors down 16%. 4WD tractor sales for the month were up 12%.

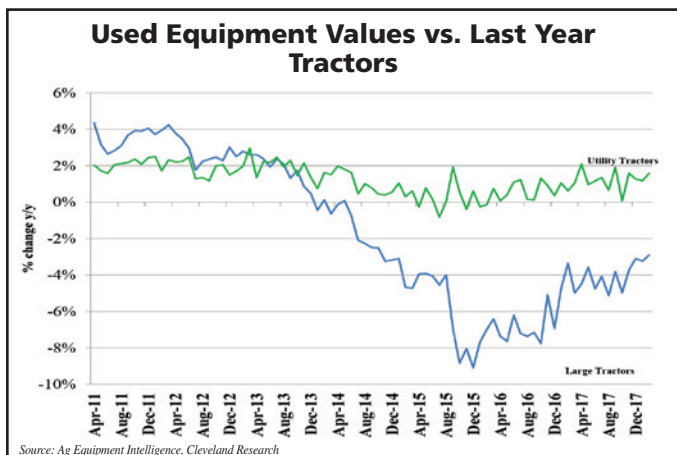
North American Combine Sales



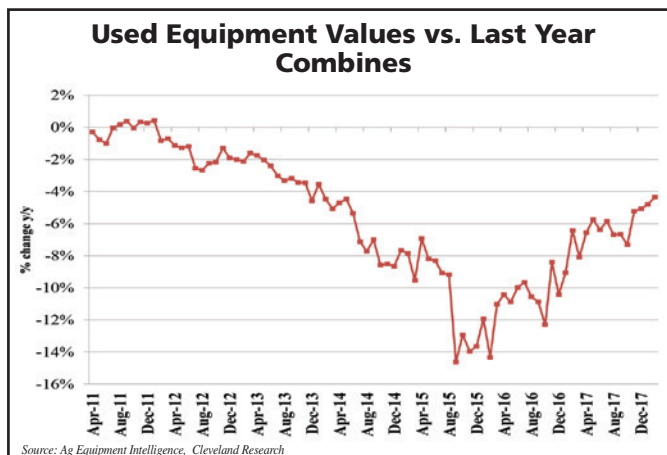
Source: AEM, Cleveland Research

Total North American combine sales were up 24% in February, following a 5% decline in January.

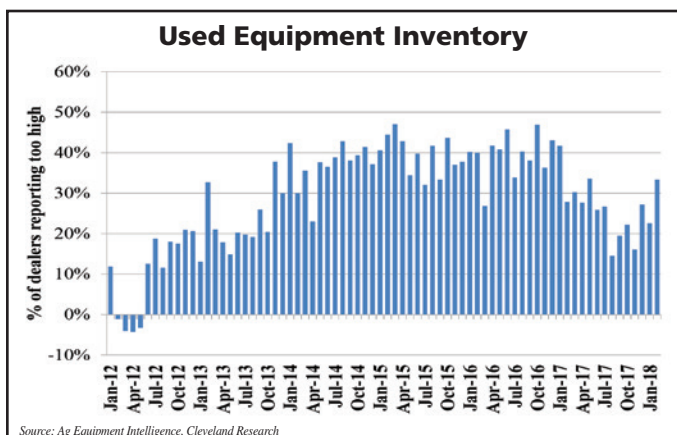
USED EQUIPMENT TRENDS



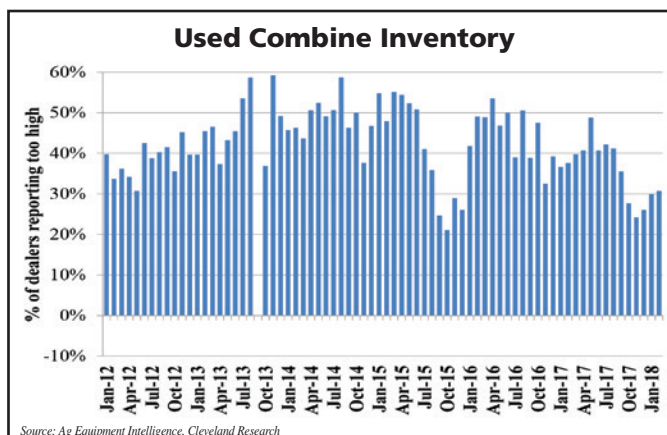
Large tractors were reported down 3% year-over-year, and used combine prices were reported down 4% in February.



Used combine pricing improved to down 4% in February after 3 months of declines in the 5% range.

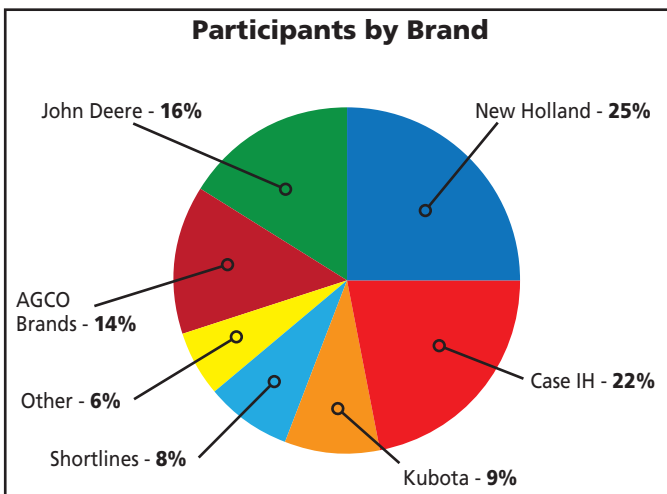
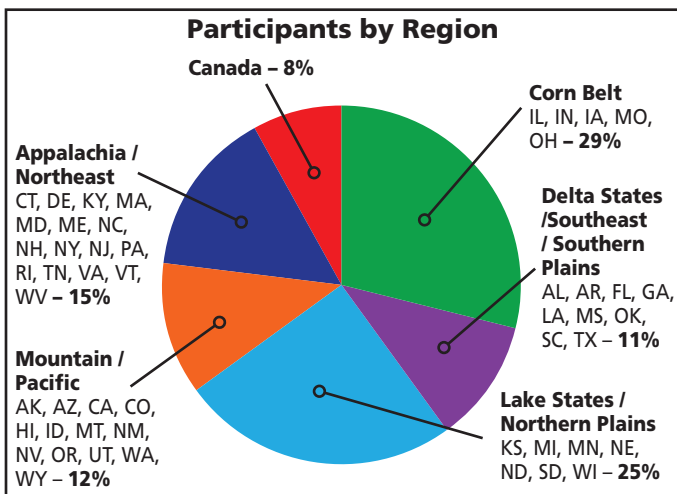


A net 33% of dealers reported used equipment inventory as "too high" (41% too high, 50% about right, 8% too low), increasing from the 23% reporting heightened inventory in January and the 26% average in 2017.



Used combine inventory levels were reported as "too high" by a net 31% of dealers in February, in line with January, and better than the 37% average in 2017.

MARCH 2018 SURVEY RESPONDENTS



The March survey had about 130 respondents representing combined annual revenues of roughly \$4 billion. By brand, 25% of respondents were New Holland dealers, 22% Case IH, 16% John Deere, 9% Kubota, 14% AGCO dealers and 14% independent dealers.