

MACHINERY & EQUIPMENT:

Setting the Standard for Industrial Auctions — Déjà Vu All Over Again

BY MICHAEL A. PETRUSKI

Many of the major valuation and appraisal firms in the U.S. have their origins in the auction business of industrial assets and/or retail going-out-of-business liquidations. The advent of the Internet, advances in fiber optics and telecommunications, computer technology and a growing global economy have fueled innovation in the way industrial assets are marketed and sold today.



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Over the last 14 years, the rapid growth of the rental equipment business has created some of the largest rental equipment companies ever and has seen the rental revenues for the top 100 rental equipment companies grow from \$4.450 billion in 1997 to over \$13.854 billion in 2007 (“The RER 100 Slows Down” by Michael Roth, *Rental Equipment Register*, May 1, 2009). For the boom period of 2003 to 2006, year-over-year revenue growth ranged between 12.2% and 15.1% each year. A significant part of this growth was fueled by new residential and commercial construction and the need for new equipment financed by cash flow, equity and bank debt. Let us not forget, that economic boom period was preceded by the economic meltdown in late 2001 through 2002, which saw the bankruptcy and financial restructurings of some of the top 10 rental construction equipment companies, including NES Rental, NationsRent and Anthony Crane.

In the spring of 2007, the market values for many classes of used industrial assets began a steep decline due to the collapse of the residential housing market. Major classes of construction equipment including motor scrapers, motor graders and water wagons were idled as residential construction activity in Florida,

California, Arizona and Nevada fell off dramatically. With significantly lower demand for building products and consumer goods to build and fill new homes, saw mills for softwoods and hardwoods closed, and most building supply companies rationalized their size by closing yards and reducing inventory. With less goods moving from importers, manufacturers, distributors and retailers, our nation’s trucking activity began to slow.

In the beginning of 2008, construction equipment auctions in Florida saw record numbers in both the number of lots offered and the total revenues achieved as both contractors and major construction rental companies reduced the size of their respective fleets and closed branches in anticipation of a weakening economic construction climate. It is noteworthy that a majority of the top 20 Rental Equipment Register (RER)-ranked companies have been and are financed today with asset-based loan structures from the major U. S. and European banks.

The secured lender in asset-based finance and in equipment finance will typically structure term loans based on the appraised Net Orderly Liquidation Values (NOLV) or the Net Forced Liquidation Value (NFLV) of the machinery and equipment assets. Based on the type and age of the assets appraised, the secured lender will advance up to 85% of the NOLV or 90% of the NFLV and structure the tenor of the term loan to be between three to seven years. Secured loan facilities to rental equipment companies are an exception as the appraised assets are part of a revolving credit facility. The appraised assets are reported on a monthly borrowing base certificate and the monthly availability is decreased by a fixed percentage based on the age and composition of the rental fleet.

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Developing Markets and Buyers With Technology

The recent economic downturn has not only seen the complete liquidations of major retailers including Circuit City, Linens and Things, Movie Gallery/Hollywood Video and Mervyn's but also the downsizing of domestic auto manufacturers, Chrysler and General Motors, and asset liquidations of construction equipment contractors and rental houses including U Brothers, Chesapeake Site Contracting, Miller Brothers, Hoss Equipment and food processing companies including Maui Pineapple Co., and Humboldt Creamery.

Many of the major valuation and appraisal firms in the U. S. have their origins in the auction business of industrial assets and/or retail going-out-of-business (GOB) liquidations. The advent of the Internet, advances in fiber optics and telecommunications, computer technology and a growing global economy have fueled innovation in the way industrial assets are marketed and sold today.

To effectively auction industrial assets with an international appeal, lot sizes in the hundreds and sometimes multiple locations, the large industrial appraisal and auction firms have used the technology of the Internet to register all bidders, accept live Internet bidding, and allow a bidder to view the auction process live online from a laptop computer.

No longer does the motivated buyer have to personally inspect a large asset purchase. There are a number of certified industrial appraisers that, for a small fee, can complete a visual inspection most anywhere in the U.S. and Canada for a domestic or international buyer prior to the actual auction date.

Many of the largest industrial auctions, in both revenues and number of lots sold, are in construction and transportation (trucks and trailers) equipment assets. Large construction equipment dealers, contractors, rental equipment companies, truck fleet managers and asset-based lenders use the live auctions and online Internet bidding to sell new, used and surplus assets domestically and internationally in a more efficient and cost effective manner. It is estimated that over the past five years, more than 35% of the construction equipment assets sold at auction have been sold to international buyers, primarily in the Middle East, Central and South America, Australia and Western Europe. The international distribution networks established by construction equipment manufacturers that include Caterpillar, John Deere, Terex, Komatsu, Volvo, Liebherr, Linkbelt and Manitowoc, have given the international buyers confidence in sourcing spare parts and supplies for future repairs to used machines.

The large construction equipment and transportation auctions differ from the typical industrial machinery auctions in that there is no buyer's premium charged to the buyer. In a construction and transportation equipment auction, the seller of the asset is charged a commission of between 5% and 10% depending on the asset and the number of assets brought to the auction by the seller. In an industrial machinery auction of machine tools, metal stamping and plastic injection

molding equipment, woodworking equipment, food and beverage processing equipment, paper and textile machinery etc., the buyer will be charged a premium of between 10% and 15% of the selling price.

In both the construction/transportation auctions and the industrial machinery auctions, all assets are sold "where is, as is" with the buyer responsible for removal, rigging and transportation from the asset's location.

How Can You Appraise an Asset If You Haven't Sold It?

Great American Group's Machinery & Equipment appraisal business, led by Marc A. Swirsky, C.E.A., president, has seen a heightened awareness and sensitivity from asset-based lenders during this economic recession for more transparency in the appraisals of machinery & equipment assets.

"Our M&E appraisal division has been able to leverage the information we gain from the Wholesale & Industrial division's actual liquidation experience, in both orderly liquidations and auction liquidations for the benefit of our ABL clients. Our clients in asset-based lending want to know what past and recent experience we have in liquidating specific M&E asset classes. In the past 12 months our Wholesale & Industrial division has liquidated assets in auto assembly plants, precision CNC machining and turning, commercial, direct mail and digital printing, envelope converting and printing, food and dairy processing, furniture manufacturing, trucks, trailers, heavy construction equipment and more. We have seen more late model equipment sold at auction in this economic recession than ever before" said Swirsky.

Lester M. Friedman, CEO of Great American Group's Appraisal and Valuation Services business, recently spoke before a group of asset-based lenders about lender expectations in today's economy. "Our appraisals are being tested as retail and industrial inventories liquidate and M&E assets go to auction sales. It is not uncommon for the lender with a distressed borrower, to ask us for a guarantee. While this request was common for retail borrowers, we are seeing an increase among industrial accounts in metals, building products and construction equipment." [abfj](#)

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