# GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

## Metalworking Monitor
June 2011

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### Introduction

Welcome to the premier issue of the Metalworking Monitor from Great American Group Advisory & Valuation Services ("GA"). This publication will provide you with market value and industry trends for a variety of Metalworking assets.

The enclosed information represents a composite of GA's industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the nature of certain Metalworking assets, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

This inaugural issue relates information covering most Metalworking products, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the Metalworking industry.

### Scope of Information

GA welcomes the opportunity to make our expertise available to you in every possible way. Please feel free to contact us at any time.

This Monitor provides you with information concerning the major types of assets within the Metalworking industry: CNC machining; CNC turning; metal fabrication; and foundry. We are always mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.

# ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Metalworking Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, building products, food, automotive, and chemicals industries, among many others.


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# EXPERIENCE

GA has been involved in the asset disposition of many industrial contractors, rental construction equipment companies, oil and gas service companies, and freight haulers. Recent transactions include:

**Wholesale and Industrial Deals**

- Aerospace Sheet Metal
- Air Craftors Engineering
- Allard Engineering
- Aluminum Skylight
- Assembly & Manufacturing Systems, Inc.
- Beacon Tool Company
- Black & Decker
- Bristol Compressors International
- Butts Manufacturing Company
- Callaway Golf
- Centerline Welding
- Chicago Faucets (2 Horizontals) Flip Deal
- CMAG Enterprises Inc.
- Coast Foundry & Manufacturing
- Colima Industrial
- Comptech USA

In addition, we have conducted a wide variety of appraisals of metalworking assets. Given our experience in both the valuation *and* disposition of metalworking equipment, GA is uniquely qualified to not only render value opinions, but to help your liquidity needs through the sales of surplus and/or idle metalworking assets.

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# OVERVIEW—Recovery Values of Metalworking Equipment

Over the last 12 to 18 month period, the manufacturing sector of the United States has seen month over month increases as concerns over the recent global economic crisis have waned and capital expenditure has increased. The demand for finished goods, especially in the automotive sector, coupled with the reduced supply of both new and used equipment, has led to significant increase in recovery values in the metalworking sector.

One of the largest categories of used machinery and equipment that has been affected by the recent upswing in the manufacturing sector has been computer numerical control (CNC) equipment. During the economic downturn, demand for CNC equipment fell drastically as the demand for products these machines manufactured was low. The resulting oversupply in the secondary marketplace for this type of equipment coupled with the lack of demand led to depressed recovery values. As the demand for finished goods has increased in recent months, so has the demand for CNC equipment. This is evidenced by the increase in sales prices for both auctions and used machinery dealer sales.

Metal fabrication and foundry equipment has also seen an increase in demand in recent months as driven by the upturn in the automotive market and construction equipment production. Consumer demand for new cars has led to increased output by automotive manufacturers who in turn have ramped up production to maintain a steady supply. Additionally, the increased demand for construction equipment has led to increased output of related parts and components assisting in the increase of recovery values of foundry equipment.

Additionally, the metalworking industry in the United States has seen improvement in part due to the return of production that had been sent offshore in recent years. Most notably with production in China, many manufacturers have noted that the benefits of moving production abroad do not outweigh both the explicit and implicit cost associated with maintaining facilities outside of the United States. As a result, production that had once been moved outside of the United States has begun to return.

# RECENT APPRAISAL TRENDS

## CNC MACHINING

CNC machining equipment has seen tremendous growth over the last 12 to 18 months as the global economy has begun to improve and manufacturing has picked up. In the United States, an estimated 250,000 jobs in the manufacturing sector have been created in the last year, helping to drive the recovery domestically. Production related to metalworking has been a strong driver of this growth.

The consumption of machine tools was up 57.6% in March 2011 over the preceding month and up 99% from the same period last year. The trend has continued through the second quarter of 2011 as new and used equipment sales continue to increase. The demand for CNC machining equipment is tied closely to the economic recovery and economic downturn that followed before it.

Original Equipment Manufacturers (OEMs) of CNC equipment scaled back on production of new equipment during the economic downturn of 2008 and 2009 as demand for finished products and components fell sharply. As the global economy has recovered and as the demand for finished goods has increased, OEMs have struggled to increase production to keep up with demand. As such, the demand for good condition, late model CNC equipment has risen sharply driving up the values of such equipment accordingly.

Supply of good condition, late model equipment has been depleted and used equipment dealers in the marketplace are finding it difficult to acquire inventory due to the lack of available equipment. Additionally, the number of liquidation sales has dropped drastically in recent months as compared to 2009 and 2010. As a result, auction results have seen increases in recovery values ranging from 15% to 20% from the first quarter of 2011.

## CNC TURNING

CNC turning equipment typically shares the same fate as CNC machining equipment. As with CNC machining, CNC turning equipment is realizing an upswing in demand and related recovery values.

Late model equipment, typically model year 2002 or newer, has seen the largest upward swing in recovery values. Inventory supplies for these types of assets remain low as business failures leading to liquidations have slowed dramatically. Used machinery dealers remain hard pressed to acquire and retain equipment as sales of assets which typically took months to complete are now done in a matter of weeks.

Part of the increase in demand for late model used equipment comes from end-users' desire to increase capacity while also increasing efficiency. This, coupled with the lengthy lead times for the manufacture of new equipment, as well as the delayed delivery of finished products and components from Japanese manufacturers affected by the recent tsunami, have led the way for a seller's market.

# RECENT APPRAISAL TRENDS

## METAL FABRICATION

Metal fabrication equipment has seen an increase in demand similar to that of CNC equipment in the secondary marketplace. Driven by the improvements in the automotive as well as construction industries, the demand for metal fabrication equipment has grown. However, a continued slow housing market softened the growth.

First quarter 2011 results, while well below the highs experienced in the mid 2000s were very strong with the second quarter of 2011 remaining steady. While there has been growth in this sector over the last year, it has not been quite as dramatic as what has been seen with CNC equipment. Typically, metal fabrication equipment values remain steadier through swings in the economy than CNC equipment, as the sheet metal fabrication is less technical and less prone to market pressures. As such, while recovery values are forecasted to improve, they will continue to do so at a much reduced rate as compared to CNC equipment.

As with CNC equipment, good condition, well-maintained, late model equipment is in high demand with reduced supply, leading to a seller's market. However, older equipment, punch presses, and old mechanical press brakes in particular, are in low demand with recovery values for such equipment reflecting this.


## FOUNDRY

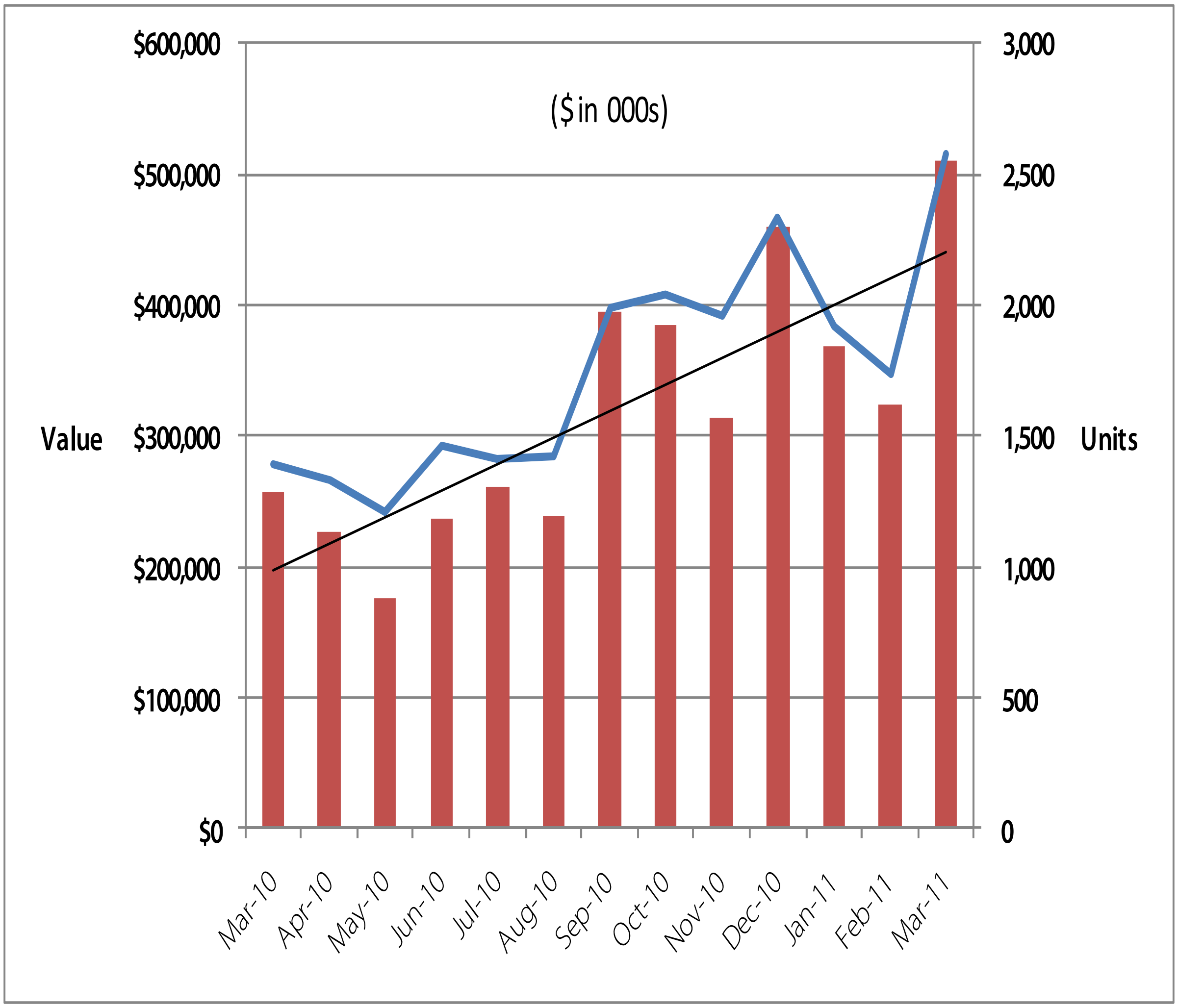
As with the rest of the metalworking industry, foundry related equipment has seen an upswing in demand and recovery values. Reports indicated that roughly 90% of domestic foundries are running at capacity to keep up with the demand for products. Manufacturers of construction equipment, such as Caterpillar and John Deere, have started to shift casting production back to the United States from overseas markets leading to the increased demand for foundry production.

The cost of maintaining production in countries such as China has risen over the years as labor costs have increased as well as shipping costs. Additionally, many manufacturers have found that the products being manufactured in China have been below typical standards, with related customer service costs hindering production overseas. The shift back to United States-based manufacturing facilities has helped drive the demand domestically for related equipment.

Currently used equipment sales are very strong, with late model equipment being in high demand. As is the case with CNC equipment manufacturers, OEMs of foundry equipment had cut back on production during the economic downturn and are now ramping up production to try to keep up with the demand for equipment. Lead times for the manufacture of new foundry equipment are in the 26 to 39 week range due to these related cutbacks. Due to the shortage of new equipment available in the marketplace, used equipment in good condition has seen recovery values increase accordingly. As a result, used equipment prices have seen a roughly 25% increase from a year ago.

# RECENT APPRAISAL TRENDS

## New Domestic Metalworking Equipment Orders




As the economy begins its recovery, we have seen an increase in manufacturing. This, coupled with a shift in manufacturing back to the United States, has led to an upward trend in the demand for metalworking equipment.

As demonstrated above, a large spike in demand in September 2010 marked the beginning of a continuing upward trend.

## MONITORING POINTS—Metalworking Equipment

| Monitoring Point | Impact |
|---|---|
| Monitor the recovery and rebuilding in Japan. | As a major source of CNC components, the backlog created by the recent natural disasters in Japan will negatively impact the availability of new machines and machine components. This has lead to delayed delivery of finished products and components from Japanese manufactures affected by the tsunami. The resulting impact is a shift toward a seller's market due to the lack of available inventory. |
| Monitor the availability of new metalworking machinery. | Decreased production of new metalworking equipment during the recession, coupled with a recovering manufacturing base has created a gap in the availability of CNC machines, resulting in greater recovery values in the used equipment market. |
| Monitor the state of the automotive industry. | The automotive industry is one of the largest users of metalworking machinery. As a result, significant changes in this industry can drastically affect demand and recovery values. As major manufacturers schedule new plant openings, both domestically and internationally, and struggle to meet increasing demand for "green" technologies, there will be and upward shift in demand for this type of equipment. However, unrest in the Middle East and rising oil prices may inhibit positive growth expectations. |

# MONITORING POINTS—Metalworking Equipment

| Monitoring Point | Impact |
|---|---|
| Monitor capital equipment spending. | Capital expenditure has increased as concerns over the economic crisis slow and economies begin to rebuild. As capital equipment spending has started to edge upward, the resale market is showing stability and growth over the last several months. This is particularly evident in the semiconductor industry and in used late-model CNC equipment. |
| Monitor movement and growth of component manufacturing. | There is a growing trend of major construction equipment manufacturers shifting their component manufacturing base from overseas back to the United States. This is a result of labor rates and shipping costs becoming increasingly high. Additionally, manufacturers have reported that the products being manufactured overseas have been below typical standards. Most domestic foundries are already operating at capacity to meet the increasing demand. |