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Ten Things Asset-Based Lenders Should Know About Machinery & Equipment Auction Sales

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You never want to go there. But sometimes you have no alternative. When you do need to call in a machinery and equipment (M&E) liquidator, you'll want to understand the modern auction sale. The good news is that the auction landscape has changed significantly in recent years, and for the better. Gone are the days when the only buyers at auctions were local machinery dealers, industry insiders and other speculators looking for rock bottom discounts.

The auction platform is now more popular than ever, with more choices for both sellers and buyers. To the finance industry, public auctions were once considered 'fire sales', representing the lowest possible recovery. Many lenders would not even consider a Forced Liquidation Value appraisal in their risk analysis, focusing only on Orderly Liquidation Value. Today, in most cases, a properly conducted and executed auction sale strategy will reach a more active, targeted market, at a far lower cost, and generate greater net proceeds than an extended orderly liquidation.

When the chips are down, asset-based lenders, equity investors, turnaround managers, bankruptcy trustees and other professionals look to companies like LiquiTec for maximum recovery in asset disposition. *ABF Journal* asked me to discuss the key factors that are most often overlooked or misunderstood by secured parties when approaching the inevitable auction sale. Many factors contribute to a successful disposition of distressed assets. So, how do you prepare for the worst case scenario? Knowledge, awareness and planning can be the keys to unlocking maximum investment recovery.

1. Use the right sale strategy

There are three basic types of auction sales conducted today: online, live auction and sealed bid. Online auctions have grown significantly in popularity and scope over the last several years. They serve an expanding role in bringing assets to market quickly, effectively and at a lower cost than traditional auctions. Online sales are especially useful when the asset pool is small, has a relative low value or is spread out over a number of locations.

Live auctions have traditionally been held at the factory, facility, truck terminal or equipment yard where the assets are located. This is still a popular and effective methodology. Yet, in many cases, live auctions are now conducted 'theater-style' in hotel ballrooms, with buyers allowed reasonable time to inspect the assets prior to the sale. This creates a more comfortable and inviting environment for buyers and sellers. It also allows for the sale of assets located at multiple sites to be directed toward a concentrated market of bidders competing against one another. Travel, logistics and other costs associated with holding separate auction sale events at multiple locations can be significantly reduced in this manner.

Sealed bid sales are a traditional liquidation strategy generally reserved for highly specialized items or those assets with a very narrow market of potential purchasers. In many cases today, a combination of these three sale strategies, deployed correctly, will recover the maximum net proceeds. An experienced liquidator may consider and model a number of approaches with regard to any disposition project before deciding on the best strategy.

2. Maximize the net recovery

In choosing the right approach, the liquidator may consider a number of alternatives. These include consolidation of assets located at multiple sites. It is often advantageous to vacate locations with high occupancy costs early in favor of lower cost, company owned or lender secured plant or terminal sites. Creative strategies may also include a controlled release of specific quantities of like items into the marketplace in a series of staggered sale events. Often, it can be best to 'cherry pick' key items from the asset pool. Offering these items by private negotiation to strategic buyers active in the marketplace, yet outside of the auction, may lead to a greater return.

3. Prepare to pay for marketing

Outside of occupancy costs, marketing is often the most expensive - and most important - cost associated with a successful sale. Yet all other preparation and planning will fail to deliver if the auctioneer does not reach and attract the right market of industry-related or commodity-specific buyers. Traditional direct mail and display advertising, whether regional, national or global, is still useful and important. However, these channels are now augmented by comprehensive online and electronic marketing techniques. Even popular social media sites such as Facebook, Twitter, and YouTube are now being used to promote industrial and commercial auction sales.

4. Understand the value of the asset pool

If you are fortunate enough to have a recent appraisal from a reputable firm of the subject assets in hand when you begin your disposition project, that's terrific. Usually, Murphy's Law is true to form and that is not the case. The seller, faced with the potential of requiring an auction sale, should immediately seek the guidance of an experienced auctioneer to understand the current liquidation market value. In addition to estimating value ranges based upon economic conditions at that time, the auctioneer will identify and analyze market dynamics such as competing dispositions, new machine deliveries, concentrations of auction activity by region and other factors.

5. Allow appropriate time.

Your auctioneer will model the best sale strategy and provide a timeline to allow for sale site or asset preparation, consolidation, marketing, strategic sale scheduling and so forth. Seasonal concerns may dictate that a sale be delayed in certain cases. A series of staggered sales may be required in order to limit market flooding in other instances. The time required for preparing and conducting the auction - or auctions - and the time needed for disassembly and removal of all installed assets should be carefully considered in any





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study. Extensive disassembly of installed assets at large plants and lack of available specialists capable of performing these services in any given region can lead to unexpected bottlenecks.

6. Use a major auctioneer

Select a nationally or globally active liquidator with the skills and experience necessary to achieve maximum investment recovery on your behalf. Quite often, lenders or other secured parties will award liquidation assignments to local or regional service providers. Although capable and reliable at the local level, these liquidators often lack commodity-specific intelligence or important industry contacts, marketing savvy and proven experience with the specialized assets you now have to liquidate. Major auctioneers also regularly utilize webcast technology in their live auction strategies. Webcasts allow buyers to compete and bid in real time with those attending a live auction event. This has become an important and integral tool in achieving maximum recoveries.

7. Invest in asset management

Too often, auctioneers are 'thrown the keys' and expected to perform a successful remarketing project only to find confusion when they arrive at the sale site to begin. This can lead to costly delays. Again, if you have a recent AccuVal appraisal in hand, you're in good shape. Otherwise, the auctioneer will need to understand completely and accurately just what assets are available to be sold. Company-prepared asset lists used for accounting purposes often do not contain enough detailed information to assist auctioneers thoroughly in this regard. Further, the auctioneer must be able to access the titles, locations and keys for all company vehicles. Proper asset management is critical in dispositions of heavy mobile equipment spreads or rental equipment inventories.

8. Understand the logistics involved

The more the seller understands about what it will actually take to perform the liquidation, the better the experience for all involved. Rolling stock or heavy mobile equipment fleets may need to be marshaled from outbound locations or remote terminals to one or more central sale sites. Assets installed at satellite locations away from borrower sites may require the use of collateral access agreements, landlord waivers or other means. Obviously, physical recovery of rental inventories can present a unique and challenging environment for the liquidator. Consider extreme removal needs and all other logistical challenges; budget and plan accordingly.

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9. Understand the holding costs

What else do you get when you take possession of the assets? That's right, the liabilities. Make sure to understand the full scope of costs so that you and your auctioneer can make informed decisions. Occupancy and other holding costs often involve far more than just rent or mortgage. An allocation for all necessary utilities in addition to a reserve for facilities maintenance, labor, materials, removal of hazardous wastes, insurance and other costs should be established. Certain real property taxes may also be payable, depending on the contractual arrangement.

10. Act quickly, or sooner

The sooner you contract with a qualified and experienced auctioneer such as LiquiTec, the better the opportunity to identify the greatest number of options and sale strategies available. Do you have a client 'on the bubble'? LiquiTec works with lenders and other secured parties before the axe falls. We get inside the project early, identify key assets, model sale strategies and perform valuations in advance of a plant closure. We also work to identify key personnel that we may seek to retain through the sale term.

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LiquiTec wishes to acknowledge Roger Meyers for his significant contribution to this article. Roger is a 23-year veteran of the used machinery industry. He provides consulting services to auctioneers, liquidators, appraisers and equipment dealers. Follow Meyers on Twitter: @Roger_Meyers.

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