
DOBBINS DATELINE

Update for the Lending Community on Machinery and Equipment Appraisals
Industrial Liquidations • Trends • Conditions Analysis

Winter 2007

GOOD MORNING!

As we start our 31st year as machinery & equipment appraisers and industrial liquidators, we look back and see numerous changes. Many reflect on the fact that the industrial area has had a large shrinkage in base. A good example is the typical “machine shop” or tool and die operation. These were many and now are few. While many industries have declined, others have “popped-up” to take their place but so many of these are service related rather than manufacturing.

One thing that has not changed, lenders still tell us what they want from an equipment appraisal is “what can we sell it for in case of foreclosure?” Some lenders believe we develop values that are too low. We reply by telling them that our job is to provide real liquidation values. We understand that we only supply part of the information they use to determine loan risk. We also realize our obligation is to the lender not the borrower.

We believe we have a handle on values because we are both appraisers and liquidators. We are aware of the problems involved with liquidations and how these affect values. Many lenders have never heard the horror stories that can come about in certain types of liquidations.

IN CASE OF LIQUIDATION.

Five Steps are important to start in the right direction:

1. What do you have?
2. Where is it located?
3. What are the special circumstances?
4. What is it worth?
5. What do you want to do?

These questions must be answered with clarity at the beginning.

SEALED BID REAL ESTATE SALES --- THEY WORK!

Many lenders tell us they like our modified sealed bid real estate sales program. We believe it provides many of the advantages of auction such as a sense of urgency, competitive bidding, speed, cash terms and the realization that the game is being played **now**.

There is another important advantage. History has proven that unless a real estate auction is offered on an “absolute sale” basis, the odds are only about 50% that the property will sell. If the sale is rejected, what then? Real estate agents are usually unenthusiastic about listing a

property that has failed to sell at auction. To them, it is then just another listing and it may take years to find a sale. This stigma may go on for years on “not-sold” auction real estate. Not so with sealed bids where only you and we know what the high bid was and we’re not talking. Also, our fees are success based. If a sealed bid sale is rejected, the property can then be turned over to a real estate agent. We believe our sealed bid program provides many advantages and our record of accomplishment is very good. We expect a successful sale. It is quick, for cash, and brings interest from buyers who often cannot be found by conventional real estate sales methods.

EXAMPLE OF A NEGOTIATED LIQUIDATION SALE.

We believe our long suit here at The Dobbins Company is good, common sense. By adding that to experience (this is our 31st year), we believe we bring many advantages to the table.

Recently, one of our customers (an out of area bank) found it necessary to foreclose on a small specialty restaurant. Previously, we had appraised the equipment in this restaurant and our values were based on the fact that a liquidation sale would be by auction, on-site. The restaurant was closed, but the landlord would not agree to an on-site auction. This meant that all items must be moved and sold elsewhere, so here is where it got complicated.

Removal is expensive. Some of these items are difficult to move such as walk-in cooler/freezers, stoves where gas lines must be disconnected, an exhaust system with a vent through the roof, sinks where water pipes must be disconnected, and several items with electrical connections. In addition, the landlord became “picky” about how the store was going to look after these things were removed. The only solution for removal was to hire a professional rigger, with trained people who do these jobs daily, with the equipment, trucks and insurance necessary. This is not like moving household furniture. Riggers are expensive!

Next, we needed to find storage space large enough to store this equipment in an open manner so that buyers could see and inspect and where we could have an auction. There are plenty of small storage units available at mini-warehouses, but few have units of 1,000 square feet (or more) obtainable on a month-to-month basis that would be required for a sale. Also, many mini warehouse companies will not allow auctions on their property.

If the moving and storage could be worked out, there was the question of expense. Equipment cleanup in preparation for the sale would be needed. Auction expenses, advertising, and several days of personnel for inspection and check out are required. Add all of these: rigger, storage, clean-up, advertising, inspection and check out, and the expenses really mount up. There is also another item to consider. Experience has proven that items like this bring less if they are moved from the original location because they just don’t look as good as they did in the restaurant.

With all of the above to be considered, we went to the bank and suggested negotiating a sale with several dealers. We were able to do so. No one liked the offers we received, but considering the cost that would be eliminated and the risk involved, the best offer looked better. We asked the bank to allow us to negotiate with the dealer who had made the best offer. We were able to negotiate the offer up a little over 15% and we made a deal. Quickly it could be seen that this was the best way to handle a complicated problem. Again, we believe we bring a lot to the table.

WHAT IS THE DOWN TURN IN RESIDENTIAL HOME SALES LIKELY TO DO?

First, like in all other manufacturing businesses, when inventories become burdensome, businesses must reduce production. When house building slows down, this will back up on material suppliers, sub-contractors, and others.

The material suppliers will continue to have good days and weeks mixed with slow periods and after a few months of decreasing sales, they start getting the message. Most of the dealers have not been concerned about their inventories for years. This is an industry that has historically done a poor job of inventory control. Soon they will need to reduce inventories to raise cash and many will find substantial dead and slow moving inventories which will require big discounts to sell. Even worse, many will be shocked that the dollar amount of inventories they thought they had is not there. Now add this to a period of time where inventory turns fall considerably and receivable collection periods may increase 20% to even 50%.

Many sub-contractors usually only supply labor. When their work slows, they must lay off people and often reduce their prices. These companies rarely have cash reserves and now this becomes a different world because for years they have had all the work they could do.

The above has an affect on machinery and equipment values. Some dealers and sub-contractors find they need to sell surplus equipment. Now they start realizing some older and poorer equipment has little demand.

The above is not nice, but we have seen many of these cycles, some better and some worse. These people find they are in a time where, "Cash doesn't talk, it screams."

IMPORTANCE OF CONFIDENTIALITY.

As we start our 31st year, this has never been an issue with us.

WHAT WE HEAR AND SEE.

We talked to one bank who says they have many liquidation problems, mostly residential real estate.

We are getting quite a few calls from lenders now seeking business loans outside of the residential real estate area. They ask, "What do you know about the "so-and-so" industry?" We invite lenders to call us. No obligation, of course.

INTERESTING OBSERVATION AND THOUGHTS.

Manufacturing employment in Georgia was 25% of the non-farm work force in 1975 --- In 2005, it was 10%.

With many new ethanol plants opening, could we give out of corn? Not likely. Farmers love to grow corn. Overall, it is their favorite crop. Even Georgia, where corn crop yields are one-half to one-third of those in the Corn Belt, farmers have the ability to grow lots of corn if given the incentive. Corn prices are now up 50%. This is a big incentive and we may find the most underpaid business people in the state (farmers) can at last start enjoying a fair rate of pay.

The rush to grow corn could ignite a statewide boom in agriculture. We have seen many pastures plowed-up before. The efficiency of our farmers is tremendous. Also, think what if technology can efficiently produce ethanol from pine tree cellulose and other farm waste. This could pour money into the rural areas.

DESK TOP APPRAISAL ---- WITH CAMERA.

Often we are asked to provide a “Desktop” appraisal where we have not inspected the equipment and only have a list to go on. This can often be done, but there are considerations lenders should understand. First, this works well only on commodity equipment and secondly good descriptions are vital such as full description, model number and serial numbers.

We have a better way. With our **DESKTOP APPRAISAL WITH CAMERA,** we mail the owner a short equipment information form and enclose a disposable camera, (in a double-padded, postage paid envelope). The owner fills out this short form, takes a picture of the equipment, returns the forms and the camera in the self-addressed, stamped envelope. This is a case of “a picture being worth a thousand words.” The benefit is a much better value appraisal with the elimination of on site time and travel expenses. Again, though, this needs to be commodity equipment and this type of appraisal cannot be done on all equipment.

WE ARE ALSO BUSINESS CLOSING CONSULTANTS.

There are many to advise regarding business start-ups but few that are available and experienced when it comes time to close a business. We have both knowledge and considerable experience in this area. For good results, we need to be contacted early in the game.

EQUIPMENT LIFE EXPECTANCY.

There is both “wear out life” and “economic life” for most machinery. When needed, we can supply these estimates. Most equipment has a longer “in-use” life than economic life. The big “value killer” is the rapid change in technology.



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