

## Industry Trends and News

### *Orderly Liquidation Value-In-Place*

There are certain machinery and equipment assets so difficult to separate from other installed assets that the only logical or practical way to liquidate them would be to sell as a single lot, with the express implication that a new buyer would continue to operate them in the manner in which they are presently employed.

We refer to this particular value as **Orderly Liquidation Value-In-Place**. The definition states that it is an opinion of value of the estimated gross dollars (before any sale expenses) which the assets could realize if sold by negotiated price (private treaty) sale at a properly advertised and professionally managed liquidation sale, by a seller obligated to sell, over an extended period of time, usually 6 to 9 months. Orderly Liquidation Value-In-Place assumes consideration of the present economy and viability of the entire facility being sold intact, along with all related equipment necessary to continue present processing operations. It further considers that Fair Market Value, as normally defined, could not be obtained owing to restrictions of time and probable conditions of the business under a forced sale environment.

Application of estimating value on an Orderly In-Place basis would typically be industrial or processing machinery that is so integrated or specialized that removal and sale on a piece meal basis would be highly impractical and result in an extreme degeneration of recoverable value in a liquidation situation. Facilities where this approach may be viable include certain types of food processing plants, grain handling facilities, industrial plating or metal finishing, and other such specialized industries. These types of operations typically have a large amount of peripheral equipment such as pneumatic conveying, steam and water lines, conveyors, pumps, dust collection, and filtration systems. These play a significant role in the production process and add significant cost to purchase and install, yet would have negligible resale potential if sold, disassembled and separated from the primary process machinery.

With highly integrated equipment lines, the only way to recover value from the collateral might be selling the assets as a single lot in their entirety. To make that approach possible, however, several key factors come into play.

- The state of technology and overall condition of the installed machinery and equipment must be viable to make economic sense for a prospective buyer to invest in the assets.
- The seller should be in a position and be willing to cover expenses associated with holding the property for the extended period of time necessary to find a buyer. These costs could include utilities, insurance, maintenance, security and debt service.
- A buyer must be able to acquire continued occupancy in the real estate associated with the operation, either by means of purchasing the real estate at market value and with favorable terms, by placing financing to purchase, or by means of a long term lease on the premises in a length of term appropriate to make the purchase economically feasible.
- It may be necessary to have cooperation from present management and assistance from current operating maintenance and engineering personnel in order to operate machinery and systems, perform scheduled maintenance, assist in showing the facility to potential buyers, and help transition to a new buyer.

If you have, or are considering taking a collateral position as part of a loan structure on any major, integrated manufacturing or processing facility, call us in complete confidence to see if valuing on the basis of Orderly Liquidation In-Place may be appropriate for your needs.

For more information contact Kloster Commercial Resources, (320) 217-6300 or visit us online at [www.klostercommercial.com](http://www.klostercommercial.com)

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