Machinery & Equipment Definitions & Explanations of Value

REPRODUCTION COST, NEW is “the cost of reproducing a new replica of a property, based on current prices, with the same or closely similar materials”.

REPLACEMENT COST, NEW is “the current cost of a similar new property having the nearest equivalent utility as the property being appraised”.

FAIR MARKET VALUE – IN CONTINUED USE is “the estimated amount, expressed in terms of money, which may reasonably be expected for property in exchange between a willing buyer and seller, with equity to both, neither under any compulsion to buy nor sell, and both fully aware of all relevant facts. It is further assumed that the property would be utilized in-place and in-use for the purpose intended, and that the earnings would support the values reported”.

As particularly applied to the machinery and equipment, this concept allows each asset to represent monetary worth for its installation in-place, for purposes of its continued operation as originally designed or utilized at the time of inspection. It is sometimes used for determination of allocation in terms of the purchase price in an asset acquisition, and though no income analysis has been accomplished to determine whether the earnings would justify such an investment, it is generally accepted as the asset value of a business. In addition, this value concept is often requested for upgrading company financials, and is sometimes used as a value in the formulation of partnership agreements. It is also used by the lender's client or by a debtor to show adequate protection derived from an equity position. Conversely, the asset-based lending community may utilize this concept to show the upper end of asset value when the emphasis of a loan is more toward credit than assets.

This concept of value reflects acceptability in the marketplace of the type of product produced by the subject company in light of all prevailing conditions, and that this product would be readily available to competitors and/or new business investors. It is qualified in that it assumes that, upon purchase of the subject assets, economic conditions would remain the same or improve, and that the projected growth in business would be unchanged. It further assumes that supply and demand would cause a fair profit to be made by the prospective purchaser, and that the ratio of cost to manufacture to retail price was not a factor in the sale. Additionally, this concept attempts to recapture all costs initially incurred to make the subject machinery and equipment producing assets, and implies that the prospective purchaser would incur all such costs to replicate the existing operation, including soft costs.

FAIR MARKET VALUE - INSTALLED is "the estimated gross amount, express in terms of money, of an installed property, which may reasonably be expected in exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to neither buy nor sell, and both fully aware of all the relevant facts".

This concept is typically used when there is an acquisition of a facility in which there is no consideration given for the contribution of those assets to the business as a whole. How the buyer anticipates using the equipment is not a factor in the assigned value.

FAIR MARKET VALUE is "the estimated gross amount, expressed in terms of money, which may reasonably be expected for property in exchange between a willing buyer and a willing seller, with equity to both, neither under any compulsion to buy nor sell, and both fully aware of all relevant facts".

This concept represents a price that is reasonable for both the buyer and seller, and should be used as the base value that is further defined by the represented scenario.

FAIR MARKET VALUE - REMOVAL is “the estimated amount, expressed in terms of money, which may reasonably be expected for a property in exchange between a willing buyer and seller, with equity to both, neither under any compulsion to neither buy nor sell, and both fully aware of all relevant facts. It is further assumed that the property would be moved to another facility”.

This concept is the base price that is utilized as a guide for expected return when conducting an Orderly Liquidation Value appraisal, and is often requested by individuals or companies that require a value for their assets in the used market. It does not consider factors such as installation, freight, and taxes and, to this end, the buyer would consider the difficulty of removal in any offer to purchase. The buyer would also consider the fact that the sale would most likely be void of any warranties or guarantees attendant to the sale.

FAIR VALUE is “the cash price that might reasonably be anticipated in a current sale, under all conditions requisite to a fair sale. A fair sale means that buyer and seller are each acting prudently, knowledgeably, and under no necessity to buy or sell, that is, other than in a forced, or liquidation sale”.

The appraiser should estimate the cash price that might be received upon exposure to the open market for a reasonable time, considering the property type and local market conditions. When a current sale is unlikely, e.g., when it is unlikely that the sale can be completed within twelve months, the appraiser must discount all cash flow generated by the property to obtain the estimated fair value. This cash flow can include but is not limited to, that which is the result of ownership, development, operations, and sale of the property. The discount applied shall reflect the appraiser's judgment of what a prudent, knowledgeable purchaser, under no necessity to buy, would be willing to pay to purchase the property in a current sale.

LIQUIDATION VALUE – IN CONTINUED USE is "the estimated gross amount, expressed in terms of money, which is projected to be obtainable from a failed facility, and assuming that the entire facility would be sold intact within a limited time to complete the sale".

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This concept considers that **"Fair Market Value"** as typically defined, could not be obtained due to the time consideration, as well as the probable condition of the business under forced sale conditions. However, this concept of value does reflect acceptability in the marketplace in light of all prevailing conditions, and assumes that the reported value should be readily obtainable from competitors and/or new business investors.

Value assessed under this concept is a highly volatile number, as it is the assumed result of a liquidation (forced sale) in which the sale scenario does not consider closure of the facility, and further considers that the facility would continue as an operating entity with the continued and identical use of the assets in-place and in-use for the purpose intended. The value indicator, as used by some asset-based lenders for specialty industries, is typically done so with the understanding that any loan considerations are based more on credit than assets.

Though this value concept allows a higher value indicator, which is typically less than Fair Market Value, it may still be realistic when considering all known facts. Further, this concept of value is typically improper unless there is a strong belief that the assets are capable of manufacturing or operating at a profit in a competitive marketplace that requires the capacity, and that this capacity could not be economically absorbed by the competition.

This concept is qualified in that it assumes that, upon liquidation of the assets, economic conditions would remain the same or improve, and that the projected growth would be unchanged. Further, it assumes that supply and demand would cause a fair profit to be made, and that the ratio of cost to manufacture to retail price was not the cause of failure.

ORDERLY LIQUIDATION VALUE is “the estimated gross amount, expressed in terms of money, which could typically be realized from a sale, given a reasonable time to find a purchaser, with the seller being compelled to sell on an as-is, where-is basis”.

Asset-based lenders most frequently use this concept of value. Its primary attribute, “realized from a sale”, provides maximum flexibility to the presumed liquidator in both method of disposal and timing. The liquidation period is dependant upon the scope of sale and the type of assets to be disposed of. Also, there is greater exposure with this concept of value than with Forced Liquidation Value due to the higher average indicators resulting from the assumed scenario.

FORCED LIQUIDATION VALUE is “the estimated gross amount, expressed in terms of money, which could be typically realized from a properly advertised and conducted public sale, with the seller being compelled to sell with a sense of immediacy, on an as-is, where-is basis".

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SALVAGE VALUE is "the estimated gross amount, expressed in terms of money, that may be expected for the whole property or a component of the whole property retired from service and for an alternative use".

SCRAP VALUE is "the estimated gross amount, expressed in terms of money, which could be realized for the property if it were sold for its material content and not for a productive use".

INSURANCE REPLACEMENT COST is "the replacement cost, new as defined in the insurance policy, less the cost of the items specifically excluded in the policy, if any".

INSURABLE VALUE DEPRECIATED is "the insurance replacement cost, less accrued depreciation considered for insurance purposes".

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