VALUATION

MONETIZATION

ADVISORY

Hilco Global

Vested in Your Success

EQUIPMENT APPRAISERS ASSOCIATION OF NORTH AMERICA

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TRUSTED PROFESSIONALS

What is Fair Value?

FAIR VALUE as defined by FASB in ASC Standard 820:

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

What does FASB Stand for and Who are They?

FASB is the *"Financial Accounting Standards Board"*

Established in 1973

An independent organization that establishes financial accounting and reporting standards for organizations that follow Generally Accepted Accounting Principles (GAAP).

Why do we use Fair Value?

Business Combinations (ASC 805): Assets of a newly formed business enterprise can be re-depreciated and accounting standards dictate this must be done so all assets of the newly formed entity are properly stated on their balance sheet.

Goodwill and Intangible Assets (ASC 350): Each company with goodwill on its balance sheets must test the carrying value of each reporting unit of the company to assess whether there has been a decrease in goodwill.

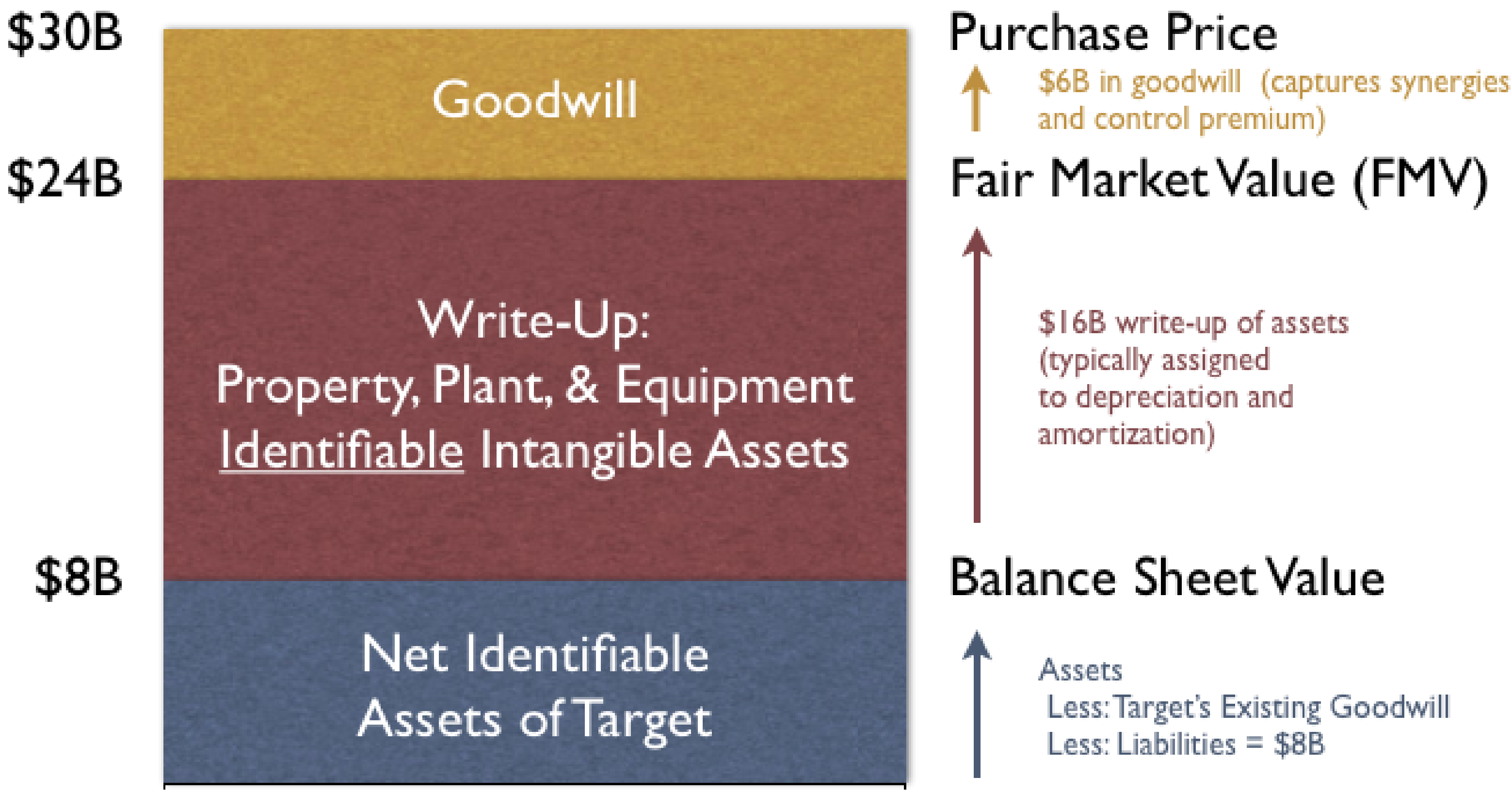
Asset Impairment Testing (ASC 360): Property, Plant and Equipment: normally occurs when there is a sudden and large decline in the fair value of an asset below its carrying amount, or the amount recorded on a company's balance sheet.

Why do we use Fair Value?

FASB requires the purchase price of the business to be allocated into four units:

- Personal Property
- Real Property
- Intangible Assets
- Net Working capital

Personal property is a type of property which can include any asset other than real estate.


$30B
$24B
$8B
Goodwill
Write-Up:
Property, Plant, & Equipment
Identifiable Intangible Assets
Net Identifiable
Assets of Target
Purchase Price
$6B in goodwill (captures synergies and control premium)
Fair Market Value (FMV)
$16B write-up of assets (typically assigned to depreciation and amortization)
Balance Sheet Value
Assets
Less: Target's Existing Goodwill
Less: Liabilities = $8B

How to Approach a Fair Value Appraisal?

- Similar to any appraisal you will want to have a conversation with your client about the project scope.
- Ask if they are working with an auditing firm. I will try to include them when discussing the scope of work.
- Find out if your client is working with any other firms to value the remaining aspects of the business.
- Ideally, we will receive a fixed asset ledger “FAL” containing all the assets for the company.

How to Approach a Fair Value Appraisal?

- After reviewing the supplied FAL, I put together a standard information request for the client.
- Some questions to ask:
  - Does the FAL include Historical Equipment Costs?
  - Does the equipment costs include installation both direct and indirect?
  - Are the properties owned or leased?
  - Are the acquired dates historical?
  - Have there been any previous allocations done?
  - Can you trace repair and upgrades to the parent asset?

What Appraisal Approaches are Utilized?

All three approaches to value can be used to reach Fair Value.

Market approach Under this method, the prices at which similar assets have recently sold are used as the basis for an asset valuation

Cost approach In its simplest form, the cost approach is the current cost of a new asset less all forms of depreciation.

Income approach generally is not used when appraising personal property due to the difficulty of attributing income to specific equipment.

Using Cost Approach to Determine Fair Value.

- Trend and depreciate is the preferred methodology for clients and auditors. It allows the register to be utilized going forward for the client's financials. Just as important it minimizes post -issues with the Client & Auditors.
- Trending is a method of estimating a property's reproduction cost new (not replacement cost new) in which an index or trend factor is applied to the property's historical cost to convert the known cost into an indication of current cost.

Gathering the Data

- At this point I will set up my excel file to build my model and gather my data.
- You need to subdivide the asset list into categories based on the type or use of the assets.
- You can use the Bureau of Labor Statistics, (BLS.gov) “Producer Price Index commodity data” to select the trends for each category.
- We need to determine a total useful life for each category.
- You can reference the “ASA MTS Normal Useful Life Chart” to determine appropriate lives.

Calculating Depreciation

Determine the physical ,functional and economic obsolescence.

Physical deterioration is the loss in value or usefulness of a property caused by wear and tear, time, etc.

Functional obsolescence is the loss in value or usefulness of a property caused by inefficiencies of the property itself.

Economic obsolescence is the loss in value or usefulness of a property caused by factors external of the property itself.

Physical Deterioration

- Physical deterioration can be determined by an Age/Life calculation, observation, or use /total use calculation
- I utilized depreciation tables published by “Marshall & Swift” to apply a depreciation percentage to each asset based on the age of the asset.

Functional and Economic Obsolescence

- The functional and economic obsolescence's can be difficult to quantify when dealing with a large fixed asset ledger.
- One method is to utilize an inutility calculation based on the plants production rates.
- The production rates can give us an idea that there is obsolescence at the plant level either functional or economic.

Functional and Economic Obsolescence

- A market obsolescence multiplier equals the market comparable divided by the fair value developed from our cost approach model.
- When you develop your multiplier you should take a representative sample from all of your asset categories.
- Once you have your multipliers for each category you apply them to the remainder of your assets.

Parent/Child Assets and Effective Age

- Often you will have line entries (child) that are an associated part of a larger main asset (parent).
- These child entries are usually repairs, upgrades or modifications to the parent asset.
- We cannot value these child assets individually.
- We determine whether the child asset would change the effective age of the parent assets.
- This is determined by weighting the additional investment in the asset by its chronological age.

Auditor Follow-Up

- Once the appraisal is complete you will prepare a draft version of the report to send to your client and or auditor.
- Normally auditors will send a list of questions for you to answer. Be prepared to send all of your work files.
- The review process can last multiple months its not uncommon to be contacted 2 to 4 months after you completed the report.
- Once the auditor has accepted the report you can prepare your final draft.

Questions?

About Hilco

Hilco Redevelopment Partners
- Acquisition of industrial & manufacturing sites for repurposing

Hilco Industrial LLC
- Acquisition and disposition of machinery, equipment and industrial inventory

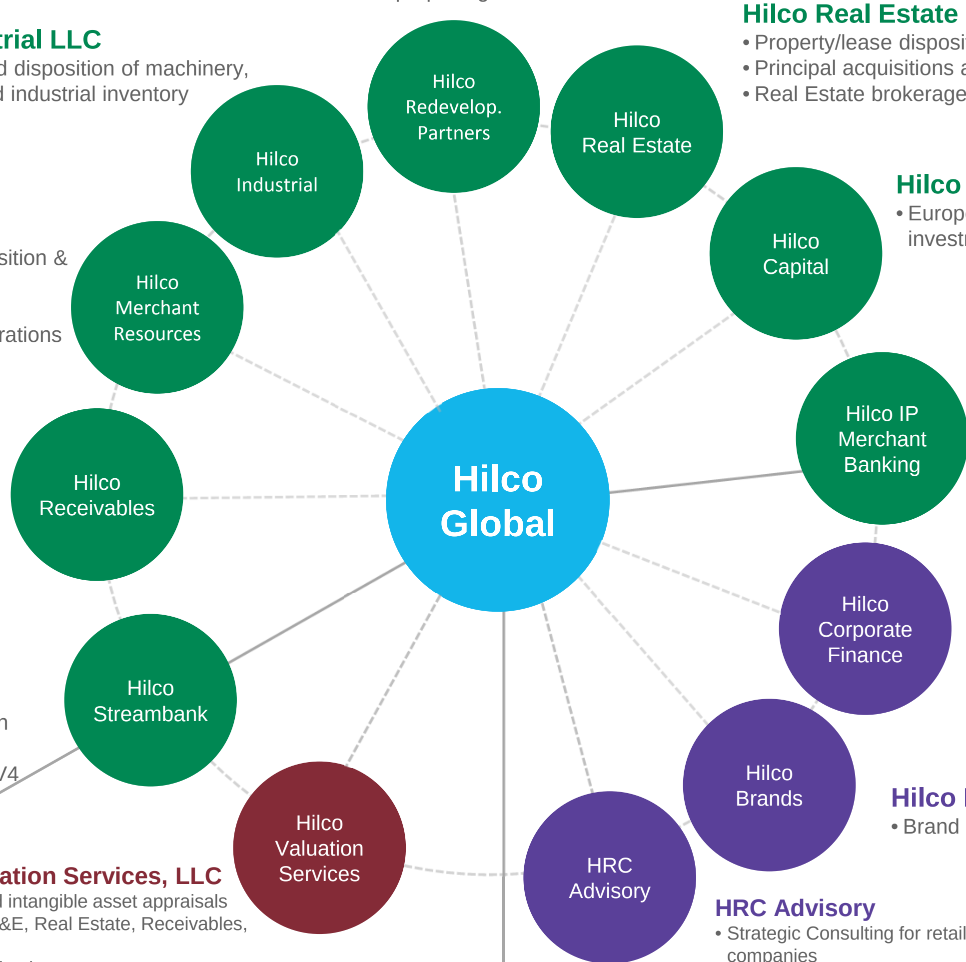
Hilco Real Estate LLC
- Property/lease disposition
- Principal acquisitions and sale/leaseback
- Real Estate brokerage/auctions

Hilco Merchant Resources LLC
- Retail & wholesale inventory, FFE acquisition & disposition
- Retail M & A facilitation
- Outsourced store management and operations
- Marketing services

Hilco Capital
- European asset acquisition and equity investment

Hilco IP Merchant Banking
- IP financing, monetization and capital solutions on patents across technologies

Hilco Receivables LLC
- A/R portfolio acquisition and collection
- Commercial A/R portfolios
- Non-performing loans
- Purchase charged off consumer debt



Hilco Corporate Finance
- Provides strategic and financial advice associated with selling a business or exiting a portfolio company, divesting a subsidiary or division, or completing a M & A transaction.

Hilco Streambank
- Intangible asset valuation & monetization
- Market development and auctions for IP patents, domain names, trademarks, IPV4

Hilco Brands LLC
- Brand strategy, licensing & consulting

Hilco Valuation Services, LLC
- Tangible and intangible asset appraisals
- Inventory, M&E, Real Estate, Receivables, and IP
- Business Valuations
- Insurance/Tax Valuations
- Asset Verification and Tagging
- Compliance – Ad Valorem
- Due Diligence Services

HRC Advisory
- Strategic Consulting for retailers and consumer product companies
- Performance enhancement and R.O.I processes
- Pre-acquisition operational due diligence
- Store operations and workforce management

VALUATION
(APPRAISAL SERVICES)

ADVISORY
(CONSULTATIVE SERVICES)