

## Orderly Liquidations: Higher Prices, Faster Sales

By Edward Castagna

**W**hether selling off end-of-lease stockpiles, returns, repossessions, or equipment recovered from bankruptcies, orderly liquidations offer several compelling advantages over public auctions. Combine orderly liquidations with the reach of the Internet, and they become powerful and convenient tools for remarketing equipment.

Consider these real-life examples of equipment sold by Nassau Asset Management utilizing the reach of [www.nasset.com](http://www.nasset.com), the company's website that facilitates bids for orderly liquidations.

Nearly 2,000 Automated Teller Machines (ATMs) leftover from end-of-lease stockpiles gathered dust in storage for three years until they were posted online. Now they are going fast in a series of bulk sales.

Some 30 generators being liquidated in a remote U.S. location fueled scant interest among domestic bidders. Once posted online, they caught the eye of a buyer in Pakistan.

More than 100 tractors and walking-floor trailers resulting from a recent corporate bankruptcy are being sold via orderly liquidation following the trustee's decision to pull the business from a major auctioneer. The trustee made the switch after witnessing the speed and return of the orderly liquidation process used by two other creditors in the case.

A Fadal machine tool generated an offer \$10,000 above its fair market value within five minutes of being posted online.

### A Flexible Process

Orderly liquidations are a means of marketing and selling off used equipment over a flexible time frame at a flexible price. The time frame can be as short or as long as the seller prefers. Sellers also determine the price range they are willing to consider. Most orderly liquidations take place over websites that enable asset management specialists hired by sellers to post details about the equipment and gather bids discreetly. Trucks, buses, machine tools, construction equipment, and medical devices are among the equipment types most frequently sold via orderly liquidation.

Lenders and lessors have the choice of handling orderly liquidations in-house or hiring outside asset management experts to assist them with all or part of the process. Outsourced asset managers that concentrate on the remarketing needs of leasing and finance companies can accurately assess the equipment's market value, recover the equipment if necessary, store it, advertise it, and sell it via orderly liquidation.

### Commercially Reasonable Sales

After assets are sold, there often remains a deficiency balance still owed by the debtor. If assets are not sold properly as defined by law, the debtor can contest the sale and, if successful, avoid paying the deficiency balance altogether. Asset managers experienced in orderly liquidations for the equipment leasing and finance industry can structure sales that will hold up in court, and appear in court to defend them, so creditors can collect deficiency balances.

### Higher Selling Prices

Public auctions are a helpful medium for selling off assets that have wide public appeal, including cars and personal computers. But experienced asset managers and bankruptcy trustees have learned that orderly liquidations tend to net higher prices when remarketing industrial vehicles, machinery, and specialty equipment used by businesses. Joe Santora, an asset manager for FirstMerit in Akron, Ohio, estimates that orderly liquidations net higher selling prices than auctions "probably nine times out of 10."

The flexibility of the orderly liquidation process is the key reason it tends to generate higher selling prices. Unlike the typical absolute auction, where equipment is sold for the highest bid made during the sale that day, regardless of its worth, orderly liquidations allow sellers to expand the time frame if necessary to attract more bidders.

Additionally, potential bidders are willing to pay higher prices when they have been given time to perform due diligence before a purchase. Due diligence steps can include reviewing the maintenance and operational records of the equipment, and having qualified personnel test the equipment's reliability and performance. Some buyers, especially dealers, value having ample time to structure the equipment's eventual resale before finalizing a bid. They tend to pay more competitive prices when they do not feel rushed into a decision or when they are not buying on pure speculation.

Orderly liquidations over the Internet also command higher prices because they transcend geographic constraints. Most auctions are still held at specific locations, where poor weather or lack of accessibility can threaten the outcome on a given sale date. Orderly liquidations over the Internet, however, can attract bidders regardless of weather and location. Bidders in an orderly liquidation can wait to inspect the equipment after reaching an acceptable bid subject to their inspection. The Internet can even reach bidders from other countries where the equipment in question may be more valuable or useful.

Consider the buyer in Pakistan interested in the 30 U.S. generators. He found the generators on [www.nasset.com](http://www.nasset.com) by using an Internet search engine. The generators were not top quality and were selling slowly in the U.S. market where generators are plentiful. However, they were valuable to the buyer in Pakistan, where supplies are limited.

### Faster Sales

One silver lining in the recent surge of bankruptcies affecting the equipment leasing and finance industry is that lessors and lenders now understand orderly liquidations can be structured for fast sales as well as slower ones. Orderly liquidations over websites allow companies to begin selling off items individually, as they become available, rather than having to wait until all grouped assets are ready for public auction.

Consider the experience of the bankruptcy trustee who recently discontinued the services of a major auctioneer. He did so after witnessing the speed of the orderly liquidation process used by two other creditors in the

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case. The creditors had hired Nassau Asset Management, which completed reports on the equipment, advertised it, and sold it before the auctioneer had finished his first inspection.

Fast sales have become common on [www.nasset.com](http://www.nasset.com) as buyers and sellers have gained trust in and familiarity with the concept of online sales. Equipment that a year ago may have taken three months to sell, for example, sometimes clears out in a week. In the case of the end-of-lease ATMs, 50 were sold the very first day that the assets were posted online. Current statistics indicate that the website is experiencing more than 700,000 hits monthly.

### Protects Privacy

The discretion of the orderly liquidation process is an attractive feature for sellers who are concerned that public disclosures may compromise the stability of their companies. This is especially true when companies are in the midst of financial crisis. Online orderly liquidations can shield the identity of sellers when necessary while discreetly gathering competitive bids and providing potential buyers with the information they need to assess equipment.

### Cost Considerations

When comparing orderly liquidations versus auctions, it pays to know that most remarketing companies which handle orderly liquidations charge a single, all-inclusive sales commission fee. Most auction houses quote relatively smaller sales commission fees but charge additional for such required services as transportation, cleaning, and refurbishing the equipment. Many auction houses also require a buyer's premium, which is a fee buyers must pay in addition to their winning bid, usually 10 percent. Sometimes bidders factor in this buyer's premium when determining their top bid for a specific piece of equipment.

### Tools for Remarketing, Collections

The year 2002 was, sadly, a record year for bankruptcies in the U.S. equipment leasing and finance industry as well as the economy as a whole. When considered alongside other economic data, early reports from Nassau Asset Management's NasTrac Quarterly Index (NQI), which tracks repossessions by equipment type, indicate the bankruptcy picture began to brighten somewhat in 2003. Online orderly liquidations in 2004 will probably increasingly involve more routine remarketing of end-of-lease or returned equipment.

The orderly liquidation process will also be used for collections. Thanks to a strengthening economy, equipment leasing and finance companies are pursuing fewer difficult repossessions than in years past and focusing more of their attention on resolving problem accounts at earlier delinquency stages. Nassau recently responded by dedicating an arm of its company to accounts receivable management, hiring additional experts in the field, and introducing new solutions. As part of its receivables management services, for example, Nassau can post information about equipment on its orderly liquidations website to gather competitive bids and determine commercially reasonable sale prices before collecting deficiency balances.

### Conclusion

It is well-known among appraisers, asset management experts, and bankruptcy trustees that orderly liquidations tend to bring higher values than auctions. There also are additional benefits that orderly liquidations can provide lenders and lessors, including flexibility, proof of commercially reasonable sales, faster returns, and privacy from unnecessary public disclosures. [abfj](#)

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