

MAXIMIZING ROI THROUGH EQUIPMENT LIQUIDATION

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Cost pressures are significant drivers for pharmaceutical manufacturers seeking to eliminate redundancies and increase productivity and efficiency. When selling equipment — whether to bring your facility up to current requirements, maximize the return from your existing footprint or liquidate assets when closing or selling a facility — the expertise and resources of a strategic, equipment management partner can optimize your resource recovery.¹



ASSET MANAGEMENT OPTIONS

Larger pharmaceutical companies with multiple sites or those undertaking mergers and acquisitions typically have ongoing resource recovery initiatives. While these can be run in-house, they tend to require expertise that often isn't available or in place, which puts a burden on other resources. Specialized external equipment companies can facilitate the management of equipment assets to maximize investment recovery. The greatest return is achieved when internal redeployment is possible and capital expenditures are avoided. However, when liquidation is the best option, it's best to work with a strategic equipment partner to manage that process.

Facility liquidation projects are generally driven by two competing objectives — time available and expected monetary return. Granted, there is always a hard deadline to vacate or clean out a facility, and the expected monetary return



becomes a factor when there is a loan to repay or a significant investment to recover within a short time span. For example, a facility that is just a few years old may have more pressure to recoup a higher return at sale versus a facility that is several years old and has earned the capital investment costs back multiple times.

There are some basic approaches to liquidating an entire facility:

Sell the Complete Facility with or without Products/Contracts

Facility liquidations are a great opportunity for other manufacturing sites to obtain much-needed equipment, capacity, workforce and maybe even products and manufacturing contracts.

Liquidation or Private Treaty Sales

Not every project requires the immediate sale and removal of all of the assets of an area or an entire facility. Equipment in

storage or only certain pieces of equipment may be best handled with an item-by-item sale over a period of time often called "private treaty sales." In a private treaty sale, a reputable dealer will be in a good position to help identify the inventory, evaluate removal alternatives and costs, and suggest shipping and sales methods that can be helpful for the person who does not have resources available to help with investment recovery activities.²

Auction Contents of the Facility

Equipment commonly used among different industries is more likely to have a successful auction as opposed to machinery that is specialized or has a narrow use. There are three types of auctions: a lump-sum sale transfers all assets to the buyer and provides a target date for removal; a guaranteed minimum return ensures a minimum lump-sum sale price while allowing the dealer and seller to share in the upside of a positive sale after the deal-

er recovers the guaranteed minimum and expenses; and a commission sale puts the equipment seller in the best position for monetary return while the dealer recovers expenses and a commission from the sale. Since auction buyers generally pay for removal as part of the purchase price, the seller can enjoy significant cost savings, even if the auction-sale value itself is lower than expected.²

Sale and Removal by a Dealer

Strategic equipment partners will purchase individual machines, complete lines and even entire plants. They also have the expertise to dismantle, load and ship such machinery.

Consignment to a Dealer

The seller of the equipment retains title until sold by the dealer. Often, the dealer will coordinate removal and recover those expenses as part of the sale.

The approach taken reflects the needs

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of the equipment seller, such as time available, monetary return, the equipment being sold and market conditions.

TIME AND INVESTMENT RETURN GO HAND IN HAND

No matter which disposal option is chosen, the goal is to recover as much return on investment as possible. Certified appraisers with knowledge of equipment values make accurate assessments, and sellers gain the benefit of fast cash offers based on these appraisals. Some asset classes can be liquidated quickly at values that are very close, if not equal, to retail or true market value. Other asset classes will not liquidate quickly and require time or a speculative buyer who purchases at wholesale prices with the intent to develop and sell to a buyer later at a retail price. Basically, the more commodity-like the asset class behaves, the higher the return will be on a quick sale. The more specific or customized equipment will take longer to achieve the best return. The ultimate goal for both the seller – and the dealer – is to get the best sale price in the time allowed.

Monetary return is heavily influenced by time, but “risk” is also a big consideration for many product manufacturers. Risk can be applied to managing the contract with the equipment buyer and removal team, as well regulatory risks, which include import-export compliance, asset classes and reporting sales of regulated equipment to the Department of Justice, Drug Enforcement Agency (when applicable) or local government where the equipment is located.

THE BENEFITS OF AN EQUIPMENT DEALER

Recouping monetary investment is often not something with which manufacturing departments are familiar. Often, most manufacturing departments have not spent the time researching or gaining experience in selling equipment, nor understanding the market players, assessing values and how the market works. Even with a well-organized program, these entities *do not* have the resources to bring buyers and sellers together to initiate and close a manufacturing equipment purchase.

Thus, it is wise for a company to enlist a project manager who takes charge of an equipment disposal project. This person must have a clear understanding of the project's overall objective. Is it the speedy removal from the facility? Or is the objective to gain the highest monetary return possible? The project manager should also identify all assets to be sold and control the asset list. This list must be fixed at some point in advance of the sale to properly market the sale. If the sale list changes after marketing begins, the integrity of the sale may be compromised, which equates to a lower return from the sale.

A project manager can work with an outside equipment dealer who can help market the equipment. An equipment dealer understands the dynamics of the equipment marketplace, as they are solely dedicated to the market. Such equipment specialists have the facilities to store acquired inventory, allowing the liquidator to make cash offers and arrange to remove assets quickly.

An equipment dealer, such as Federal Equipment Company, acts as the equipment seller's guide throughout the liquidation process, presenting the best disposal option for the seller after considering all factors. In addition, an experienced equipment dealer can bring in the appropri-

Heavily in-demand equipment categories for specialty chemicals/APIs & pharmaceutical products:

- Tablet Presses
- Tanks & Kettles – solution prep tanks, storage tanks, mixing tanks, etc.
- Chemical Reactors
- Capsule Fillers / Encapsulators
- Fluid Bed Dryers
- Ribbon Blenders and Paddle Blenders
- Coating Pans
- Roller Compactors
- Spray Dryers
- Liquid Fillers

ate resources to manage the liquidation according to plan, including auctioneer selection, removal contractor, marketing plan, accommodating the seller's risk appetite and bringing a well-developed list of equipment buyers to the sale. **P**

*DEA regulations governing the sale of tablet presses and capsule fillers, for example, were revised on March 31, 2017, updated from January 30, 2017.³ These regulations mandate reporting for every transaction that involves either a tablet press or capsule filler including domestic (U.S.), import and export transactions. The regulation also requires mandatory, oral reporting of domestic transactions when the order is placed with the seller.³

REFERENCES

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ABOUT THE AUTHOR



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When you
think equipment,
think **Federal
Equipment**

THINK EQUIPMENT SAVINGS



PHARMA



CHEMICAL



PLASTICS/
RUBBER



PACKAGING



FOOD &
BEVERAGE



TRAINING



UTILITIES

Federal Equipment Company has on-hand inventory in more than 200 categories, enabling you to source reliable processing and packaging equipment that's housed in clean, climate-controlled warehouses. We obtain much of our inventory by providing asset management programs to large, multinational companies. This gives you a wide range of options to get the leading OEM-brand equipment you need from reputable sources installed and operating in your facility as fast as possible. No matter what your equipment needs are, make Federal Equipment your first call.