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Key Terms

**FLV**

Forced Liquidation Value (FLV) is the monetary value of an asset that can be expected in a transaction with a single seller and multiple potential buyers, where the seller is under a short time constraint and has location constraints within which to sell the asset. The Forced Liquidation Value for heavy equipment is most closely associated with the public auction channel.

**OLV**

Orderly Liquidation Value (OLV) is the monetary value of an asset that can be expected in a transaction with a single seller and multiple potential buyers, where the seller is needing to sell the assets on an “as-is, where-is” basis. The term orderly implies that the liquidation would allow for a reasonable time to identify all available buyers, and the seller would have control of the sale process.

**FMV**

Fair Market Value (FMV) is the monetary value of an asset that can be expected in a transaction with a single seller and single buyer, neither of whom are under any compulsion or time restriction to complete the transaction. Fair Market Values for heavy equipment are most closely associated with the private resale channel.

**Resale Channel**

The resale channel is where equipment sellers list their equipment and can negotiate directly with potential buyers. This represents the equipment dealer channel, and is often referred to as the retail channel.

**Auction Channel**

The auction channel is where owners of equipment list their items for buyers to enter competitive bids, and sellers enter competitive offers at the same time. The auction channel does not involve any direct negotiations between buyers and sellers as individuals.

**MSRP**

The manufacturer’s suggested retail price (MSRP) is the amount of money the original equipment manufacturer (OEM) recommends the equipment be sold for in retail stores. The MSRP is not necessarily the price consumers pay; equipment is often sold by dealers for lower prices than the MSRP.

Orderly Liquidation Values

**Why does OLV matter?**

OLV has been the preferred valuation metric among appraisers for some time, and is rapidly rising in popularity among equipment dealers and financiers. Industry leaders prescribe it as a middle ground between FMV and FLV.

**Why does EquipmentWatch allow flexibility in adjusting OLV?**

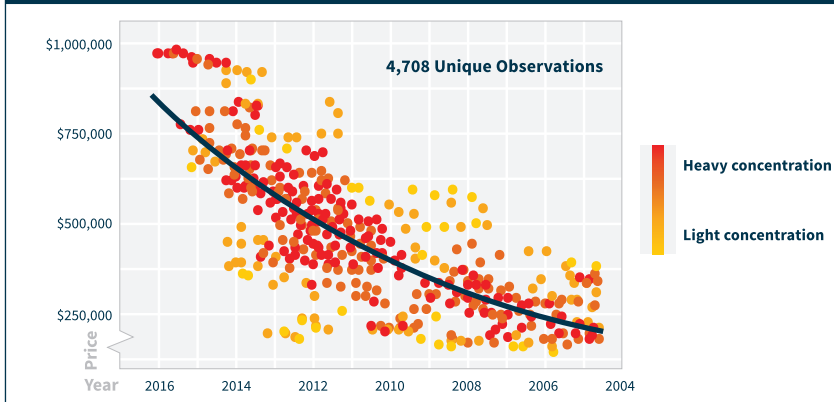
We do this to give the customer the option of choosing a value that most represents their practices. Expert opinions vary greatly across the industry; OLV could be represented by 80% of FMV or 120% of FLV. We want to give the customer the ability to retain their expertise in setting OLV metrics.



EquipmentWatch's ValueTrend Engine is the most reliable source for heavy equipment values.

In the example below, we highlight some of the common errors made in valuing heavy construction equipment. To build this model, we analyzed 4,780 observations of the Caterpillar D8T from the resale channel between February 2017 and July 2017.

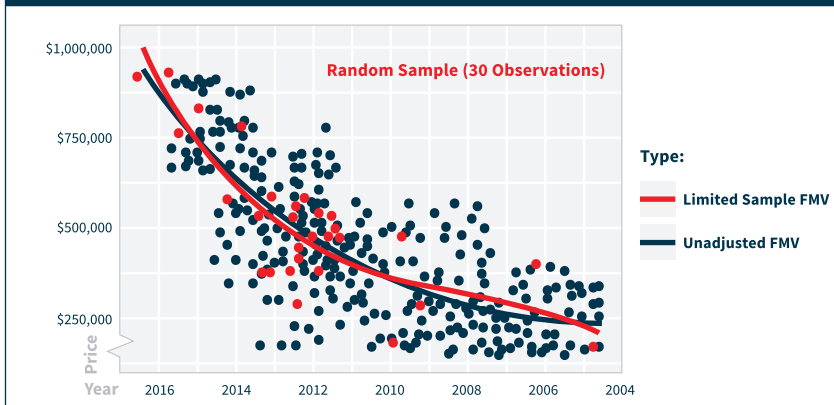
All Market Data



• Our ValueTrend engine is powered by the largest database of market activity in the industry.

• EquipmentWatch estimates all Fair Market Values (FMV) using data collected from the resale channel, while all Forced Liquidation Values (FLV) are estimated using results from the auction channel.

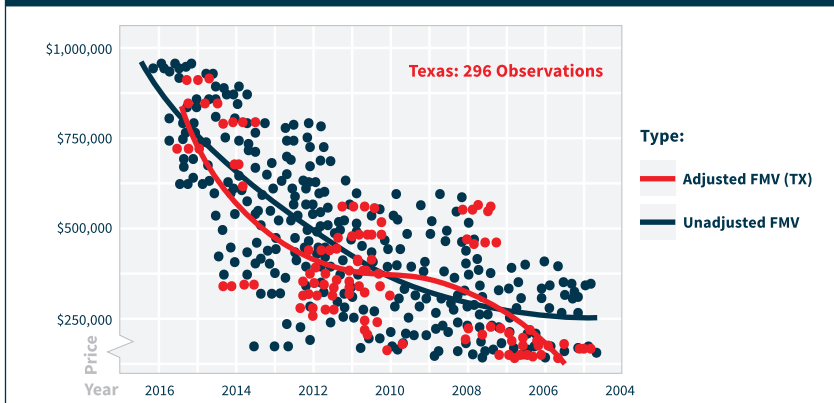
Low Volume Data



• One of the most common mistakes in the industry occurs when too small of a sample size is used to collect market comps.

• Using only a fraction of the data available on the market can result in a high degree of uncertainty.

State Market Data



• Another common mistake is to ignore the impact of adjustments like location and usage.

• Adding an adjustment for equipment located in Texas, for example, has a significant impact on the value curve of this model.



Residual Values

**Residual Value represents the worth of a piece of equipment at the end of a given term (e.g. multi-year lease or useful life).**

A high residual value generally shows that a machine has been successful at the work demanded of it, has presented minimal maintenance issues over its service life, and still presents a high value to buyers on the resale market.

**How do you create them?**

EquipmentWatch residual values are an estimate of the retained value of an asset, given an initial purchase price, based on value adjustments and expected annual usage. These values are based on historical depreciation rates and are set according to today's dollars. They do not include any inflation factors or additional forecasting measures.

Markets

MARKET MOVEMENT	BASIC INTERPRETATION	EXPECTED IMPACT ON OTHER FACTORS	AS SEEN IN...
Usage ↑	A surplus of more heavily-used equipment is being sold this month.	FMV ↓, FLV ↓, Age ↑	Dec 2017, Agriculture
Usage ↓	A surplus of less heavily-used equipment is being sold this month.	FMV ↑, FLV ↑, Age ↓	Jan 2017, Agriculture
Age ↑	A surplus of older equipment is being sold this month.	FMV ↓, FLV ↓, Usage ↑	Jan 2017, Agriculture
Age ↓	A surplus of newer equipment is being sold this month.	FMV ↑, FLV ↑, Usage ↓	Dec 2017, Agriculture
Volume ↑	The supply for equipment is higher this month, or the lagged demand is lower.	FMV ↓, FLV ↓	Jan 2017, Construction & Lift
Volume ↓	The supply for equipment is lower this month, or the lagged demand is higher.	FMV ↑, FLV ↑	Jun 2016, Construction
FMV ↑	The average value of equipment in the resale channels is rising.	Usage ↓, Age ↓	Jun 2016, Lift
FMV ↓	The average value of equipment in the resale channels is declining.	Usage ↑, Age ↑	Jun 2016, Agriculture
FLV ↑	The average value of equipment in the auction channels is increasing.	Usage ↓, Age ↓	Mar 2017, Agriculture
FLV ↓	The average value of equipment in the auction channels is decreasing.	Usage ↑, Age ↑	Jun 2016, Construction

For more information please visit

**EquipmentWatch.com/Contact-Us** or call us at **888-407-0530**