

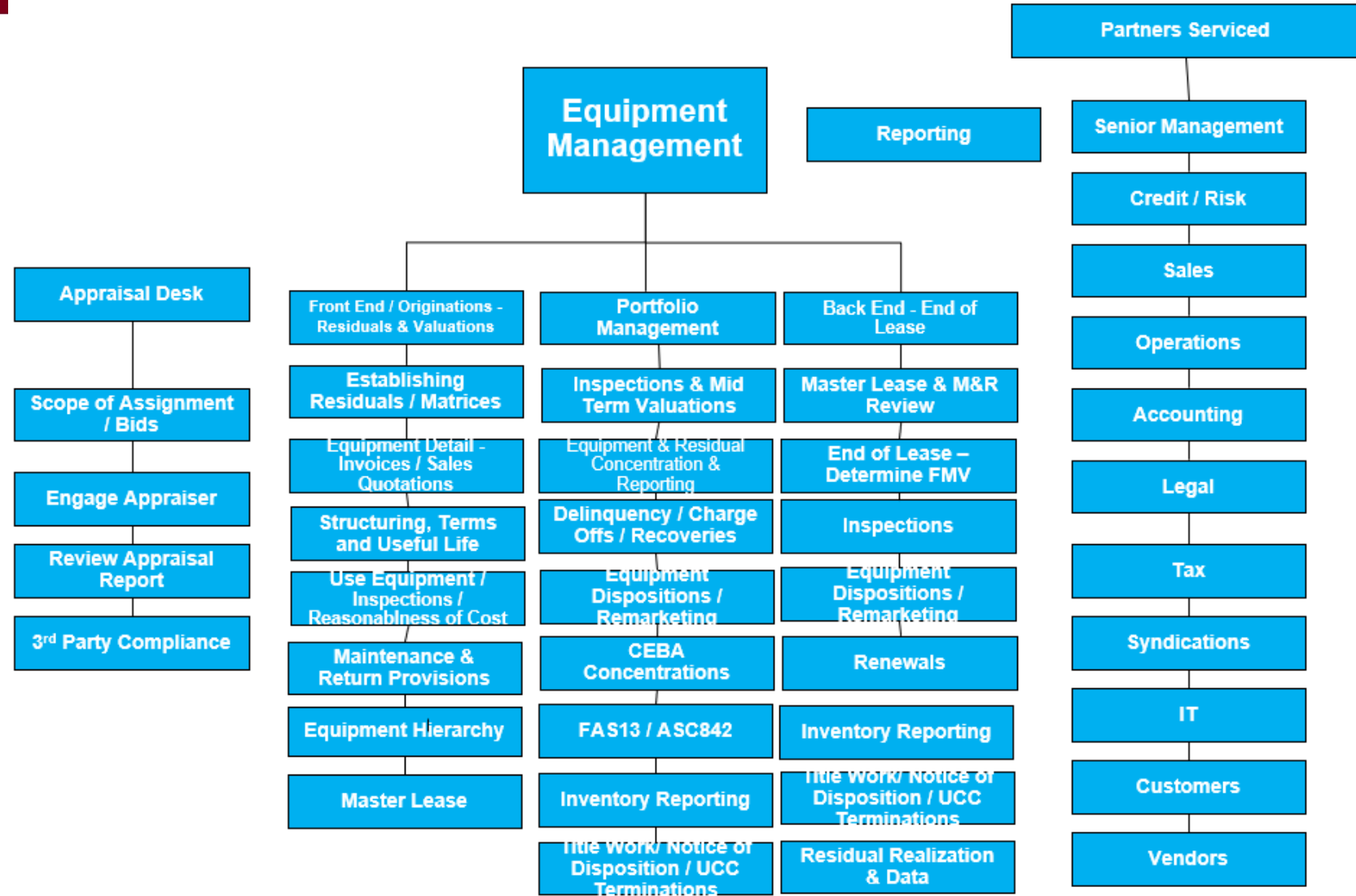


EQUIPMENT MANAGEMENT



Valuation Concepts

Equipment Management Organizational Chart



Which Hat Are You Wearing



FMV

Fair Market Value

As defined by the American Society of Appraisers (“ASA”), is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.



Day One FMV

It's been my experience, that from an appraiser's perspective, their Day One FMV is historically less than the equipment's invoiced cost.

They assume:

- The equipment is used (titled or UCC filing).
 - The equipment will be sold on the secondary market to a 3rd-Party
 - Assume a Hypothetical Condition on expose and marketing times
 - The equipment's color & configuration might not be exactly what they want
 - Buyers expect to pay less than retail (FMV).
 - Possible Warranty Not Transferring or shorter than new equipment coverage.
- FET & Tariffs considered softcost



From a Risk, Credit, & Asset Management Perspective

Having the Day One FMV lower than the invoiced cost creates an illusion that the customer is overpaying on the asset or that there is “air” in the transaction. This could create structuring challenges



NEARLY IMPOSSIBLE

- To fund a deal
- Have the Customer Default
- Repossess the equipment
- Provide adequate market and exposure time to achieve Retail / FMV
- Resell the equipment to a 3rd Party
- Obtain sales proceeds and apply them

ALL IN ONE DAY!



FMV – With Additional Language

Fair Market Value

Is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date.

For new equipment, the Day One FMV recognizes the asset as "new" and applies the Principle of Substitution as the core methodology. This assumes that a prudent buyer acquiring identical new, substitute equipment, would incur a similar retail cost. Accordingly, once soft costs are verified and removed, the Day 1 FMV of new equipment reflects its verified replacement cost



Day One FMV

With the additional language added to the ASA's FMV definition, I'm comfortable supporting that the Day One FMV is the same as the equipment's invoiced cost less any identifiable softcosts while eliminating the impression that there is air in the deal Day One or that the customer is overpaying.

I assume:

- The equipment is new & has never been titled or had any prior UCC filings.
- The equipment will be purchased by a buyer other than our customer.
- A Hypothetical Condition on the exposure & marketing times isn't necessary.
- The equipment's color & configuration is exactly what the buyer wants.
- Buyers are not expecting any discounting above what is considered normal for a new equipment purchase.



Equipment Valuations



Equipment Valuation Analysis

Reference: **VC**

Study Valid Through Date: **03/31/24** Borrower: **ABC Construction**

Requester: **Joe Smith** Obligor Rating: **Not Provided**

Invoiced Cost Reviewed ("ICR"): **\$455,068**

☐ New ☒ **Used** ☐ Sale Leaseback ☐ Refurbished (Evidence to support: **N/A**)

Equipment Description: Used 2020 Caterpillar 352 Hydraulic Crawler Excavator W/ EROPS, A/C, 11' Stick, 3.5 cu yd Bucket, Excellent Condition, 85% Undercarriage, 2558 hours & S/N MGR10012.

PURPOSE OF REVIEW IS A PROVIDE CREDIT WITH YEAR OVER YEAR VALUES				
Term	Today FMV	Today OLV	Today NOLV	Today FLV
All Equipment %				
All Equipment \$	\$500,000	\$325,000	\$275,000	\$275,000

☒ The term was provided.

Basis for Study:

Leading manufacturer. I have reviewed similar equipment in the past. I was provided with detailed equipment specifications including a link to the current for sales listing with photos. Nothing further is needed. The equipment is used, the borrower has not been the only owner. The S/N was provided. I confirmed the vintage. The expected annual usage was stated at 2000 hours. I did not contact the seller or borrower. I have not reviewed any documentation. This is a mature technology. There is a well-established installation base. There is a well-established secondary market. The typical terms for 3-year-old excavators are 3 to 5-years. The EUL is 15 plus years (from time new), assuming typical usages (1200 hours annually) & assuming all regular maintenance is performed as suggested by the OEMs. The EUL can be extended with refurbishments and by rebuilding. The term should not exceed the Equipment's useful life & the two terms are not synonymous & shouldn't be assumed to be the same. Removal costs are estimated to be 5,000. The softcost at origination appears to be nominal. This equipment is considered good collateral from a liquidation perspective. The current condition of the secondary market for this type of equipment is good. It is important to note that if the borrower fails to provide the manufacturer's required maintenance, the values and the remaining EUL may be adversely affected. I have no knowledge of the borrower's current maintenance practices. No fleet information was provided. A complete fleet liquidation when controlled by multiple financial sources can often result in flooded market conditions and our inability to control the secondary market, which could negatively impact both current and projected values. Another important valuation factor to consider on fleet equipment is the Command & Control ("C&C"). You should be comfortable with this customer's ability to easily and cost efficiently track and locate their assets and our ability to assume these responsibilities in a default situation. Without good C&C processes, the NOLV likely will be materially impacted. This is a desktop valuation, and it is limited in scope. It assumes that the equipment exists. A desktop valuation does not have the same benefits as a physical inspection and appraisal which considers the equipment's actual configuration, use and condition which are all important valuation factors. The condition is the single most important valuation factor. I made an **Extraordinary Assumption** that the equipment is in very good condition, 85% undercarriage, has been properly maintained and is capable of operating to its originally designed specifications. A **Hypothetical Condition** needs to be applied; to realize the day-one values, we must assume that the equipment has already had the required exposure and marketing times to realize these values. The expected marketing time for OLV's is 180-days and it could exceed 270-days for the FMV. I made certain assumptions to arrive at these value conclusions. If any of these assumptions are inaccurate, the reliability of this value conclusion could be inaccurate. These values take into consideration the current secondary market conditions. I'd expect these trends to remain stable throughout 2023 & 2024.

Equipment Economic Useful Life (Since New): **12 plus years.** Estimated Remaining Economic Useful Life: **12 years.**

☒ Standard, **Choose Type** Return Provisions which include standard maintenance and usage provisions.

☒ Assumes standard **Choose Type** Lease Agreement including Buy all/Return all/Renew all.

☒ Assumes all equipment evaluated is a blended value and the numbers cannot be used if the equipment is separated.

☒ Equipment inherently contains a higher degree of insurance liability during normal utilization.

Special Document Comments: The hours will not be limited and there will be no excess usage fee. EM strongly recommends obtaining a detailed sales quotation listing all standard features, options, accessories, and attachments prior to funding.

Reference: **VC**

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	FMV	OLV	NOLV	FLV
Year 1	\$500,000	\$325,000	\$275,000	\$275,000
Year 2	\$360,000	\$200,000	\$170,000	\$160,000
Year 3	\$325,000	\$165,000	\$140,000	\$130,000
Year 4	\$290,000	\$130,000	\$110,000	\$100,000
Year 5	\$220,000	\$110,000	\$95,000	\$90,000

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Orderly Liquidation Value ("OLV") - As defined by the American Society of Appraisers ("ASA"), is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time (typically defined as 180-days) to find a purchaser(s), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.

NET Orderly Liquidation Value ("NOLV") - Is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time (typically defined as 180-days) to find a purchaser(s), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date net of all expected sales and repossession expenses.

Economic Useful Life ("EUL") - Is the estimated period of time that a new property may be profitably used for the purpose for which it was intended. Stated another way, the estimated number of years that a new property can be used before it would pay the owner to replace it with the most economical replacement that could perform an equivalent service.

Determining the EUL is not done by using a fixed time frame. An estimate of the EUL should consider factors such as the projected expected annual usage, the Equipment's environment, and the maintenance practices. It is important to note that if the Equipment is not properly maintained, or the anticipated usage materially changes then the projected EUL could be negatively impacted.

All values assume that AM will manage the entire remarketing process. If not, the results could vary.

Approved by: **Mark Polis**

COMPLETION DATE **12/18/23**

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irontrax

ment - Equipment Valuation Analysis

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ine Annually Excess Usage Fee None Per Hour

Economic Summary of Transaction

☐ Appraisal Required ☐ Inspection Required ☐ Pictures Required

ing Period ☐ Mostly new ☐ < 6 mo. ☐ 2 yrs. ☒ 3 yrs. ☐ > 5 yrs.

in Percentages ☐ <30 days ☐ <60 days ☒ <180days ☐ <1 yr. ☐ > 1 yr.

urn Provisions ☐ 80 to 100 ☐ 60 to 80 ☐ 40 to 60 ☐ 20 to 40 ☐ 0 to 20

Specialization ☐ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

ceptance ☐ 1 ☐ 2 ☒ 3 ☐ 4 ☐ 5

☒ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

☒ 1 ☐ 2 ☐ 3 ☐ 4 ☐ 5

Best scale Worst

PURPOSE OF REVIEW IS A PROVIDE CREDIT WITH YEAR OVER YEAR VALUES

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Year 1	\$500,000	\$325,000	\$275,000	\$275,000
Year 2	\$425,000	\$275,000	\$235,000	\$230,000
Year 3	\$360,000	\$200,000	\$170,000	\$160,000
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Other Considerations

- **Do you consider FET hard or soft costs.**
- **Do you consider tariffs hard or soft costs.**

