

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

**Food & Beverage Processing
Equipment Monitor
October 2011 – Volume 1**

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Introduction

Welcome to the *Food & Beverage Processing Equipment Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market information and industry trends for a variety of food and beverage processing equipment.

The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the nature of certain food and beverage processing equipment, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

This issue relates information covering most food and beverage processing equipment, including industry trends, market pricing, and their relation to the valuation process. GA provides our customer base with a concise document highlighting the food and beverage processing industry.

GA welcomes the opportunity to make our expertise available to you in every possible way. Please feel free to contact us any time at www.greatamerican.com.

This Monitor provides you with information concerning the major types of assets within the food and beverage processing industry: conveying equipment, tanks, process piping, silos, bottling, filling and packaging lines, and temperature control equipment. We are always mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Food & Beverage Equipment Processing Monitor*, GA also provides clients with industry expertise in the form of monitors for the metals, heavy mobile equipment, building products, food, automotive, and chemicals industries, among many others.

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EXPERIENCE

GA has been involved in the asset disposition of many beverage facilities, frozen food facilities, and canning plants. Recent transactions include:

- Country Home Bakers, Inc.
- Everfresh Juice Company
- Coca Cola Syrup Manufacturing Plant
- Canada Dry
- Complete Pizza Manufacturing Facility
- Humboldt Creamery
- Maui Pineapple Company

In addition, we have conducted a wide variety of appraisals of food and beverage processing assets. Given our experience in both the valuation *and* disposition of food and beverage processing equipment, GA is uniquely qualified to not only render value opinions, but to help your liquidity needs through the sale of surplus and/or idle food and beverage processing assets.



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OVERVIEW

The global demand for food processing and packaging machinery generally remains strong. The continued increase in demand can be accounted for in part by ongoing economic expansion in developing nations leading to more investment in food manufacturing facilities. The basic mathematics of population growth ensures continued demand for food processing equipment. Due to the economic downturn, Americans have shifted focus towards conservative spending which has increased the demand for canned, frozen, and air-dried foods.

The frozen food sector is predicted to experience a 3.7% year-over-year growth in the next four years. As a result, it is anticipated that the demand for food and beverage processing equipment will continue to rise. However, despite the increased demand, an increase in recovery values has not yet been realized due to the oversupply of used equipment readily available in the secondary marketplace.

Equipment within the food and beverage sector would be more valuable to buyers when sold as a complete operating line rather than on a component basis. There is a large quantity of the generalized components which make up these lines in the market which weaken demand and recovery values. Conversely, larger job-specific assets may fair better when sold on a stand-alone basis.

While the domestic market for food processing machinery is currently stable, exports of such machinery have increased in the last few years and are expected to continue to grow. Due to the nature of its utility, the majority of equipment is made from stainless steel as it does not stain, corrode, or rust like other metallic compounds.

The rising cost of metals - primarily stainless steel - in recent years has impacted prices of new machines, rendering late-model used equipment more desirable. Typically, newer equipment manufactured within the last five years is hard to find in the used marketplace and commands strong resale prices. The average life of processing and packaging equipment within this sector is 15 to 20 years; however, with proper maintenance the equipment can last upwards of 30 to 40 years.



MONITORING POINTS

Monitoring Point	Impact
Monitor the cost and demand for raw materials needed for production or operation of equipment.	Cost of stainless steel impacts all equipment within this sector as there is a need for sanitation among production. Additionally, prices for chemicals used as refrigerants, such as nitrogen or argon, will affect the type of freezing process businesses choose to implement.
Monitor technological obsolescence of equipment and the availability of new food and beverage processing machinery.	Demand for higher-capacity equipment to meet the demands of processed food producers has caused late-model equipment to achieve higher recovery values as they are capable of a greater output.
Monitor the status of economic change and consumer demands within the food and beverage industry.	With financial hardships caused by the economic downturn, consumers shift consumption and spending towards canned, frozen, and air-dried foods.

RECENT APPRAISAL TRENDS

TEMPERATURE CONTROL EQUIPMENT

Temperature control, including heating, chilling, and freezing equipment, remains integral to the food and beverage processing industry. Due to the current economic climate, cheaper and more sustainable frozen products are more popular than ever. As a result, cooling methods are evolving to meet economic demand. Energy usage has become a key consideration, with the most efficient refrigeration and heating equipment seeing a sizable increase in value. To meet increased production, larger-capacity heating and refrigeration units are becoming more popular, while smaller-capacity assets are seeing a reduction in value on the resale market.

Many packaging and storage facilities are switching back to Contact Freezing methods, primarily utilizing Freon gas for cost savings. The price of refrigerants, such as nitrogen and argon, has seen a sharp increase in the range of 30% to 40%. Due to this increase in price, Emersion Type Freezing has seen a 10% decrease in value in recent years.

Generally, the value of new temperature control assets has remained stable in recent years. Resale of equipment is directly related to removal and re-installation expenditure; therefore, lower percentage-to-cost recovery values are common when compared to other equipment types within the industry. Modular design and multi-purpose assets that can be removed and sold with minimal expense are receiving the highest resale value.

RECENT APPRAISAL TRENDS

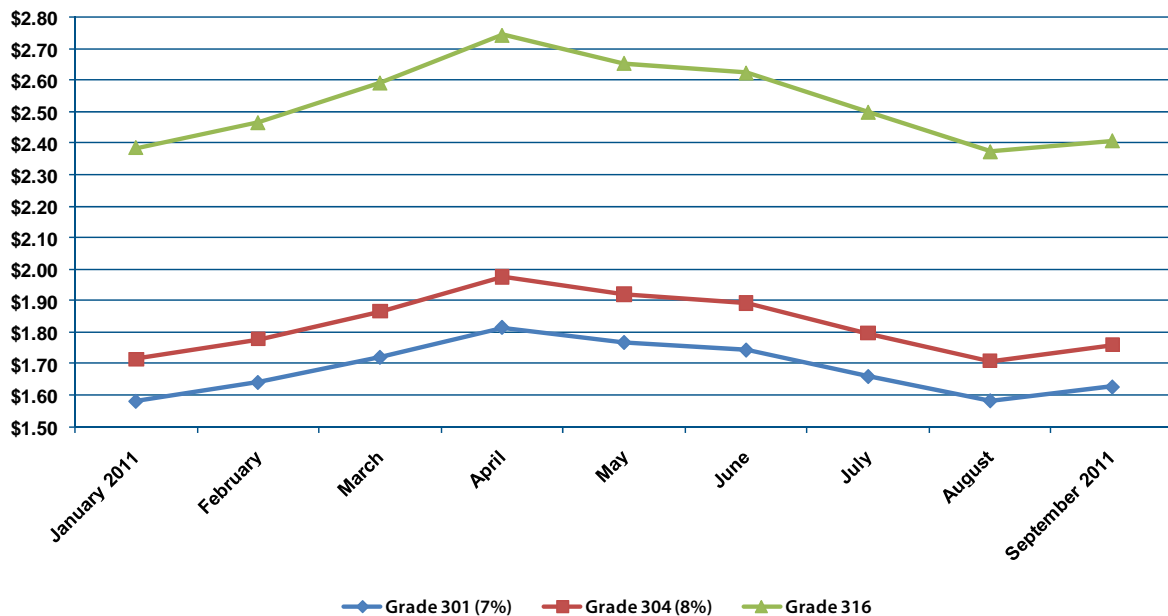
TANKS, PROCESS PIPING, AND SILOS

Recovery values for tanks, process piping, and silos are largely linked to the cost of stainless steel. The current high cost of stainless steel is carrying over to all equipment within the food and beverage processing sector. Disposition of older stainless steel machinery is occurring internationally to countries such as China where the assets are being purchased for its raw material and repurposed.

Often these items are very heavily installed and have extensive removal costs associated with physical removal and reinstallation. For this reason, a low percentage-recovery-to-cost ratio is typically realized, with scrap values being dependent on the value of stainless steel.



**Stainless Steel Flat Rolled Coil
Monthly Average Base Selling Price Per Pound
Less Discounts, Including Surcharges
January 2011 Through September 2011**



RECENT APPRAISAL TRENDS

BOTTLING, FILLING, AND PACKAGING LINES

Recovery values for bottling, filling, and packaging lines have remained stable over the last several years. These lines may be sold as a complete operating line or on a component basis. A surplus of generalized equipment which make up these lines in the used marketplace is currently causing recovery of individual components to be depressed. These lines, although customized for each company's use, can be easily modified to suit a prospective buyer's needs. As such, selling assets as an integrated system typically improves recovery values.

Users are continually seeking more efficient equipment with higher capacities. Equipment sales show higher recovery values for late-model equipment as production capacities increase with newer, more technologically advanced machines.



While the domestic market for bottling, filling, and packaging lines has remained stable, exports of such machinery has increased in the last few years and is expected to continue to grow.

The packaging sector in China is heavily linked to their gross domestic product. According to the Chinese Packaging Federation, the Chinese packaging market had a gross industrial output of \$183.9 billion in 2010. This growth has been partly attributed to the packaged food industry which has seen a 20% growth in recent years.

CONVEYING EQUIPMENT

Conveying equipment has maintained stable values for a number of years, and continues to perform well in the new and resale markets. Price, affected primarily by the cost of raw materials continues to rise gradually as the value of stainless steel and aluminum remains strong. Increased demand, both domestic and international, has led to better-than-expected resale potential.



Conveying equipment tends to recover higher values when equipment is considered part of an ongoing process line rather than sold on a stand-alone basis. Modular conveying equipment is performing particularly well in resale markets because of its ability to be repurposed and sold to a variety of different industries.

In an effort to meet strengthening sanitation requirements, equipment that can be easily disassembled for cleaning is currently seeing the highest value, both new and used, as are USDA, BISSC, and FDA approved systems.