

# The TIGER REPORT

*Asset Insights and Other News from Tiger Group*

Q1 2012

*Incorporating The Daley-Hodkin Report*

www.tigergroupllc.com

## Welcome to The Tiger Report

We are pleased to present the first edition of *The Tiger Report*, the new quarterly newsletter from Tiger Group and the successor publication to *The Daley-Hodkin Report*, the long-running newsletter published by Daley-Hodkin, the prominent M&E appraisal and auction company acquired by Tiger earlier this year.



Tanenbaum

In this and future issues, you will find brief commentaries from Tiger analysts on developments impacting asset values across a wide range of industrial and consumer product sectors; articles on major issues in asset evaluations or dispositions, or on developments affecting the various industries we serve; articles about Tiger; and news on projects handled by our affiliates: Tiger Capital Group, Tiger Valuation Services, Tiger Remarketing Services, and Tiger/Daley-Hodkin. We welcome your comments and suggestions, which you can direct to:

jtanenbaum@TigerGroupLLC.com  
—Jeff Tanenbaum, CAI, CES, Publisher ■

NEWS AND COMMENTARY FROM THE ASSET  
EVALUATION WORLD

## Industry Briefs

### COFFEE

#### MARKET DYNAMICS

The coffee market can best be summed up in one word: volatile. When prices are rapidly rising, as they were earlier this year, specialty roasters often can pass on the increase to customers, who are usually willing to pay to preserve their supply of hard-to-source product. However, companies focused on selling lower-quality product to large retailers may find it difficult to pass on the costs, as such customers would more easily switch to an alternative supplier in the face of rising prices.

**TIGER'S TAKE** Due to the exchange-traded commodity nature of the coffee inventory, it is critical that companies borrowing against coffee assets ensure that the inventory values at cost are updated on a regular basis to remain in line with market prices. For the reasons stated above, the type of coffee — premium vs. lower quality — also affects recovery values. However, those factors can be countered by coffee processors hedging against movements in bean prices by entering into annual (or other) contracts with customers, for specific volumes and delivery times, at set prices. — Jason Hornik, Associate ■



Hornik

### PLASTIC M&E

#### MARKET DYNAMICS

With the federal government continuing to push for higher fuel-efficiency standards on cars, U.S. automakers are turning to various kinds of plastic to help manufacture lighter-weight vehicles that guzzle less gas. For instance, Ford has announced a goal of making its cars and trucks 200 to 700 pounds lighter in the coming years. Increased use of plastics in a wide array of components will play a big role in achieving that goal.



Frederick

In part because of the automotive industry's increasing reliance on its materials, the plastics industry is holding up fairly well. According to the Society of the Plastics Industry, capacity utilization is hovering around 77% of pre-recession levels. Furthermore, 1,416 injection molding units were ordered in the first half of 2011 — up 30% from the first six months of 2010.

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888-55-TIGER

**TIGER'S TAKE** Increases in new orders for plastic manufacturing equipment boosts the amount of inventory in the used market. Used injection molders in the 400- to 700-ton range and in good condition are in particularly high demand, as are used vertical injection molders. We should see moderate gains at auction and in the used market, bringing better-looking collateral values as we head into 2012.

— Jim Frederick, Senior Appraiser ■



Huber

## RETAIL GROCERY

### MARKET DYNAMICS

Decreased consumer spending and a sluggish economy have taken a relatively light toll on the supermarket industry. According to the

Food Marketing Institute, supermarket sales increased 1% to \$562 billion in 2010. Through the first half of 2011, industry leader Wal-Mart posted a low single-digit increase in grocery sales, while No. 2 player Kroger Co. reported a 5.3% jump in identical store sales, excluding fuel. However, smaller regional chains are not necessarily following the trend of their larger rivals, with many hit hard by the impact of discount grocery departments within big-box retailers such as Wal-Mart, Target and Costco. Given the marketplace dynamics, consolidation is likely to continue.

**TIGER'S TAKE** A number of unique factors come into play when contemplating the recovery value of grocery store assets, including the proportion of perishable goods and whether the stores contain pharmacies. Furthermore, the industry has a wide variety of store types. The inventories of warehouse chains and specialty stores have different expense structures than traditional grocery stores and different expected recovery values. Irrespective of format, asset values can be maximized through selective replenishment, and by paying careful attention to such expense

factors as staffing and space utilization throughout the GOB sale.

— Chris Huber, Managing Director ■

## STEEL

### MARKET DYNAMICS

Hot-rolled coil steel prices have dropped significantly throughout the second half of 2011, from approximately \$900 per net ton to between \$640 and \$660. Fortunately, the general consensus is that the market has hit bottom. Unfortunately, weak demand from the domestic construction sector and a sluggish global economy should keep pricing from rebounding significantly until well into 2012.

**TIGER'S TAKE** Steel mills and service centers' inventory costs always lag the market, leaving lenders exposed to commodities markets and often under-collateralized in declining markets. Lenders should understand a borrower's costing methodology and how it relates to and fluctuates with market values. We recommend that lenders monitor a steel company's lower of cost or market reserve (LCM) and compare the current reserve to the time the appraisal was done, both in terms of LCM per net ton and as a percentage of inventory cost.

— Andrew Babcock, Director ■



Babcock

## JEWELRY

### MARKET DYNAMICS

In the first half of 2011, most jewelers posted modest gains in comparable store sales and gross margins. However, as the all-important holiday

selling season arrived, lenders remained wary that the progress in operational metrics was short-term and might not last through Christmas or beyond. Part of that concern stems from the fact that some of the improvements at the retail level came

from higher product prices resulting from increases in diamond and precious metal commodity pricing. There are also continuing concerns regarding the availability of financing for credit jeweler customers.

**TIGER'S TAKE** As the jewelry industry moves further away from the chaos and GOB sales of 2008 and 2009, retail jewelry valuations have been slowly climbing back to pre-recession levels. Still, Tiger sees limitations on consumer financing and the high costs of diamonds and gold causing sales growth to slow. Consequently, current appraisal trends may level off and possibly trend down in 2012.

— John Cronin, Director of Appraisals ■

## FOOD M&E

### MARKET DYNAMICS

Conditions in the food machinery and equipment market are reflective of the industry's two very distinct segments. The larger segment, serving food processors and manufacturers who produce products for retail stores remains healthy. Conditions are much softer in the foodservice equipment segment targeting restaurant kitchens and commissaries, as consumers continue to limit their dining out.

**TIGER'S TAKE** The consumer's ongoing need for store-bought food products ensures a continued demand for the machinery needed to produce grocery products. Further, the food industry is trending towards increased automation to offset rising ingredient costs and to minimize the need for additional employees. These factors result in a strong and active market for newer, good quality food processing equipment. In contrast, the weak performance and resulting closures of restaurants in recent times has led to a surplus of used foodservice equipment, driving down recovery values.

— Kevin Boland, Assistant VP ■



Boland



Cronin

# Tiger Tracks

What's Tiger been up to in 2011? Here's an overview of just some of the company's appraisal, liquidation and auction projects.

## LIQUIDATIONS

Managed the closing of 28 Valu-Plus discount stores with \$6 million of inventory... Working in partnership with other companies, completed the liquidation of 625 Borders stores containing \$855 million of inventory... Began the liquidation of 32 Hart, Bargain Giant and Géant des Aubaines mid-sized department stores in eastern Canada. The inventory of the stores totals \$20 million.



Tiger is liquidating 32 Hart, Bargain Giant and Géant des Aubaines stores in Eastern Canada.

## APPRAISALS

**Machinery & Equipment**—Appraised New York fleet with 987 buses, establishing a collateral value of \$30 million... Appraised a 200,000-sq.-ft. hot die forging facility in the southwestern U.S., establishing a collateral value of \$8 million... Appraised 500,000 sq.ft. of fiberboard rough/finishing plants on the East Coast, establishing a collateral value of \$9.6 million.

**Retail**—Appraised inventories from 49 stores and 65 kiosks of a car audio and mobile entertainment retailer, establishing an orderly liquidation value of \$9.2 million... Appraised 11 stores of a ranch and farm supply retailer, establishing a net recovery value of \$11.2 million... Appraised 24 stores of a running/ walking gear and apparel retailer, establishing an

appraised value of \$16.4 million... For the third year running, continued to appraise the largest ABL facility in the retail industry, covering a general merchandise retailer operating over 4,000 stores.

**Wholesale**—Appraised a distributor of branded apparel with total inventory assets in excess of \$150 million... Appraised a sporting goods distributor with domestic inventory assets of more than \$80 million and foreign assets of nearly \$10 million... Appraised a tire distributor with inventory assets greater than \$60 million.

## AUCTIONS

**Completed**—Managed bankruptcy webcast auction for Asanti Fine Jewelers. The assets had a retail value of \$900,000. The auction drew approximately 300 bidders, including online bidders from 36 states, Canada and Australia. Gross recovery exceeded all expectations... Managed auction of excess motion picture equipment from Birns & Sawyer, drawing approximately 150 bidders from 18 states and Canada. Recovery was twice the original projection... Managed live webcast auction of the assets of modular building manufacturer Kullman, including



Thermal Structural Steel Fabricating Cell was featured at Kullman auction.

sheet metal and wood-working equipment, rolling stock and work-in-process inventories on 100-acre campus in New Jersey. Auction drew 250 bidders from 22 states and 3 foreign countries, with recovery 30% above the court-appraised value.

**Upcoming**—Auction of inventories and intellectual property assets of Burke Engineering, a California-based supplier of HVAC equipment with 13 locations throughout the Southwest... Liquidation of Maryland-based Sherwood Brands' \$6 million candy and gift product inventory, with an auction of its equipment and machinery, real estate and intellectual property to follow. ■

## Industry Briefs continued

### PHARMACEUTICALS

#### MARKET DYNAMICS

The pharmaceutical industry continues to grapple with major issues such as sluggish prescription trends, EU pricing pressures, intensifying competition from generics, pipeline failures and limited late-stage blockbuster drugs. The next five years are expected to be marked by a significant imbalance between new product introductions and patent losses. Major products such as Lipitor, Plavix, Zyprexa and Levaquin will lose patent protection, which should make 2012 a challenging year for those brands. According to IMS Health, market growth will be limited to 5% to 8% through 2014. With revenue growth stalling or slowing, drug companies have resorted to cost-cutting and share buybacks to drive bottom-line gains.



Lazarus

**TIGER'S TAKE** In general, drugs recover well in liquidations and small players can easily be absorbed without an influx of product into the market. However, liquidations of a distributor or manufacturer can be significantly affected by how much its inventory tilts towards branded drugs vs. cheaper, but higher-margined, generic ones. Age is also a factor, as most pharmaceuticals have a shelf life of up to three years. After this time, the items are not legally saleable. Drugs within six months of expiration typically move at steep discounts. — Scott Lazarus, Associate ■

# A Year of Growth for Tiger

Safe to say, many U.S. companies would like to forget 2011, with its sluggish economy, stock market ups and downs, and fragile consumer confidence. But for Tiger Group, this year will prove one to remember. During the past 12 months, the company has grown both in terms of financial results and in the services it offers clients. It has added well-known industry figures to its team, and has played a prominent role in high-profile liquidations and auctions (see *Tiger Tracks* on page 3).

“Add it all up, and as 2011 came to an end, Tiger Group was better positioned than ever to offer clients a complete array of appraisal, disposition, auction and advisory services across a broad spectrum of retail, wholesale and industrial sectors,” said Daniel Kane, a Principal of the company. “There’s no doubt about it: this year was one in which Tiger took some very important steps forward.”



Kane

Judging by the numbers, 2011 has been a good year for Tiger. For instance, through the first 11 months of this year, its appraisal affiliate, Tiger Valuation Services, experienced a 15% increase in business over the 2010 period and the value of the assets it appraised increased \$1 billion over 2010 levels.



Hodkin

But the numbers are only part of the reason why 2011 has been such an important year for Tiger. In March, the company purchased Daley-Hodkin Group, a well-known firm specializing in the appraisal of machinery and equipment as well as auction services. The acquisition of the New York-based

firm strengthens Tiger's ability to offer clients appraisals of everything from machinery and equipment to consumer product inventories, industrial inventories, and commodities. The addition of Daley-Hodkin's auction expertise came on the heels of another move that bolstered Tiger's auction services: the 2010 acquisition of California-based Remarketing Associates. That firm's Principal, Jeff Tanenbaum, now heads Tiger Remarketing Services. Over the course of his career, Tanenbaum managed in-person and online auctions that facilitated the sale of approximately \$1 billion of machinery and equipment, technology assets, furnishings, wholesale inventories and real property.

While Joseph Hodkin retired when the Daley-Hodkin transaction was completed, brother Morris remains with Tiger. “I am thrilled to have joined one of the most respected valuation and disposition firms in the country,” Hodkin said. “Combining our vast experience in machinery and equipment appraisals with Tiger positions the firm as a leading provider of appraisal services.”



McGrail

“This acquisition enabled Tiger to present a complete product offering,” added Michael McGrail, a Managing Director of Tiger. “Lenders do not want to have to get separate appraisers for a project: they want a one-stop shop. This gives us the ability to be just that, and that’s why this deal was so important.” In 2011, Tiger Valuation conducted appraisals in a wide variety of businesses, ranging from the retail, pharmaceutical and building products industries to agricultural, oil and gas, and video conferencing businesses.

In another significant personnel move, Tiger Capital Group bolstered

its retail disposition services in March by adding Billy Weinstein, previously



Weinstein

a Principal and Managing Director of Gordon Brothers Group, to its team. Weinstein has more than 25 years of experience in the management and disposition of troubled businesses and assets, overseeing projects involving a total of more than \$20 billion in assets.

Additionally, in late November, Tiger Capital announced that veteran corporate advisor and attorney Bradley W. Snyder will be joining the firm as a Managing Director, focusing on business development and the structuring of acquisitions, sales and other deals in the U.S. and Canada. Snyder brings more than 25 years experience in engineering complex, multi-asset deals involving public and privately held retail and manufacturing companies, licensed brands and intellectual property—including 12 years at Gordon Brothers. ■



Snyder

## TIGER

### The Tiger Report

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