

PASSING DOWN THE FAMILY FARM: SUCCESSION SERVICES AND PLANNING

Presented by:

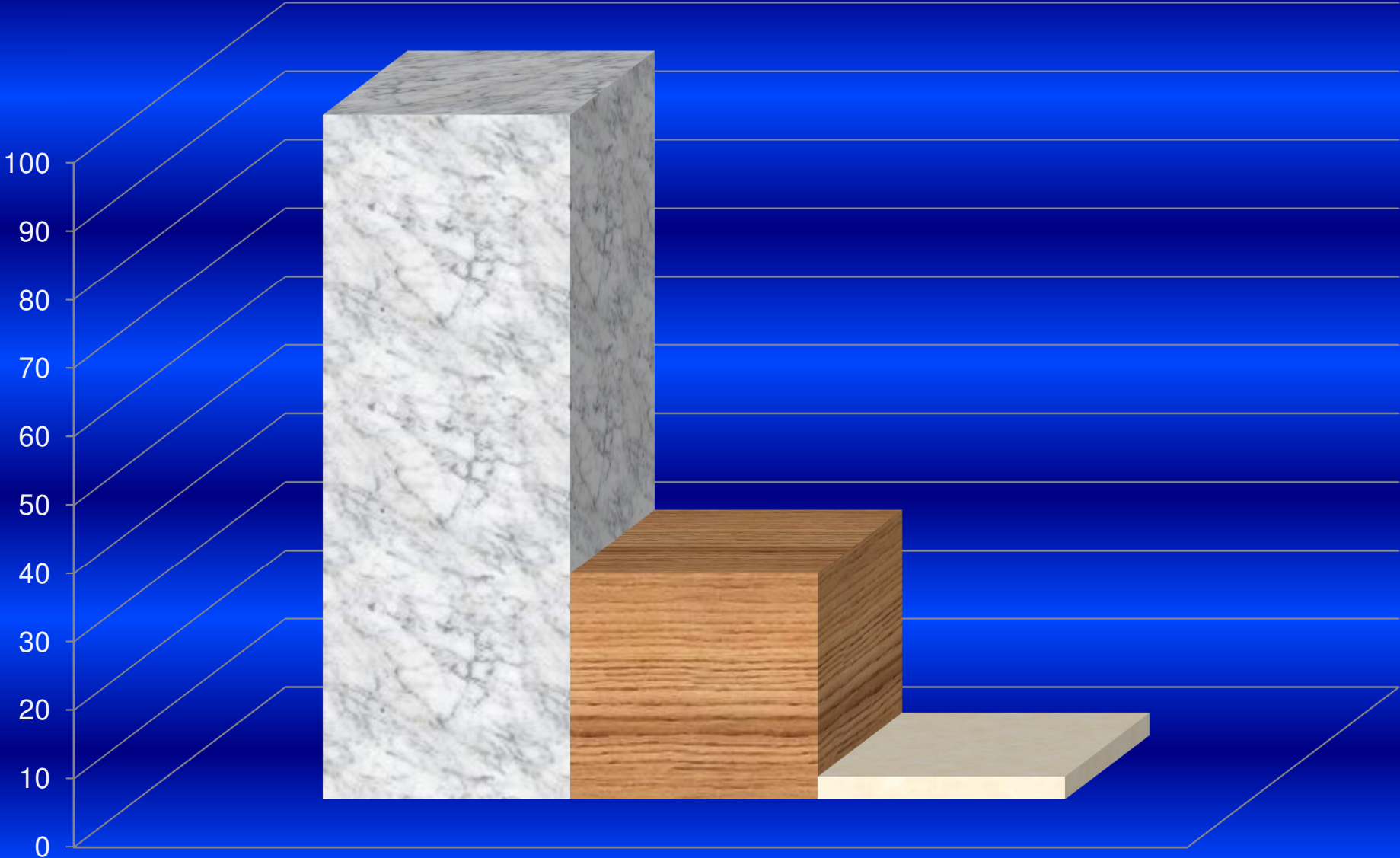
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HOLISTIC APPROACH TO SUCCESSION PLANNING



Successful Transitions From Generation to Generation



■ G1 - Founding Generation ■ G2 - Successor Generation ■ G3 - Cousin Consortium

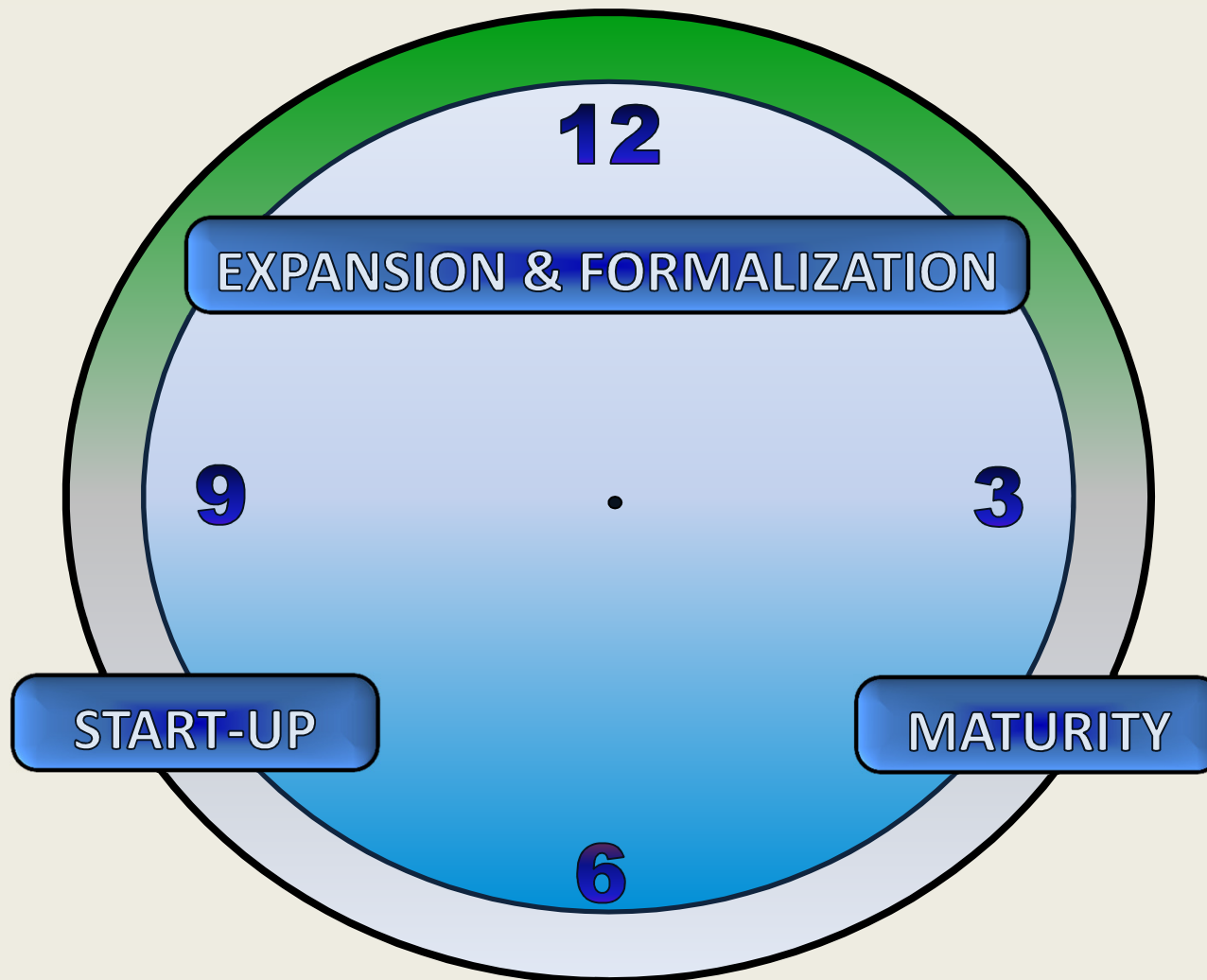
OBSTACLES TO SUCCESSION PLANNING

- **Senior Generation (G1):**
 - **Bias Against Planning**
 - **Financial Independence Concerns**
 - **Fair Distribution of Assets**
 - **Eroding Risk Tolerance**
 - **Loss of Control**
 - **Loss of Identity**
 - **Mortality**

OBSTACLES TO SUCCESSION PLANNING

- **Successor Generation (G2):**
 - **G1 Expectations**
 - **Personal Independence**
 - **Financial Feasibility**
 - **New Boss**
 - **Sibling Rivalry**
 - **Respect of Non-farm Employees**
 - **Spouse Integration**

ALIGNING SUCCESSION PLAN WITH BUSINESS CYCLE



PHASE I: DISCOVERY

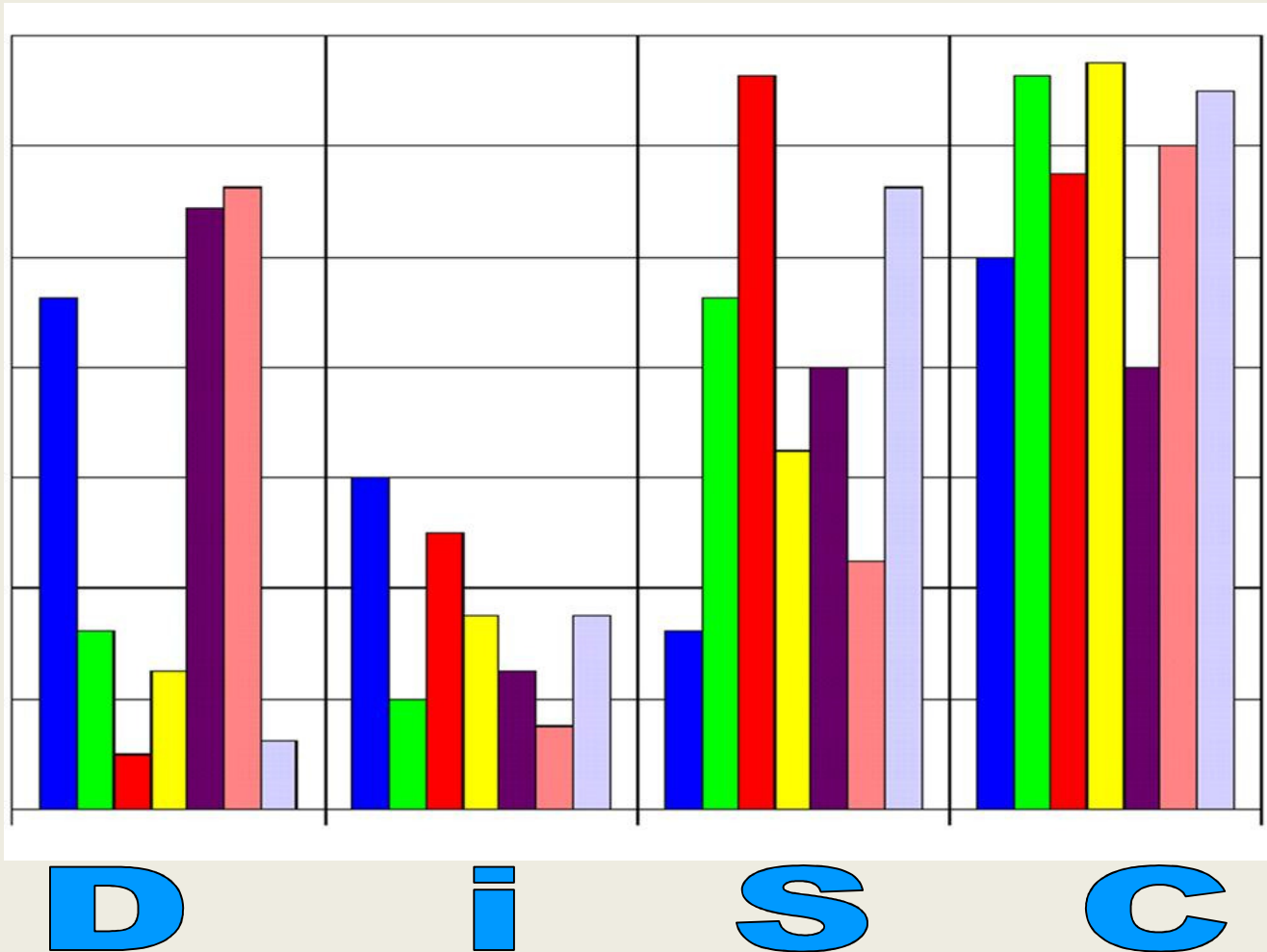
1. Family Business Assessment Survey
2. SWOT Analysis
3. DiSC® Assessments
4. Personal Interviews
5. Financial Analysis



FAMILY BUSINESS ASSESSMENT SURVEY

	SON	SON	DAD	SON	DAD
Interpersonal Relations					
We communicate effectively with one another.	1.0	1.0	4.0	1.0	4.0
Conflict is resolved in a positive manner.	1.0	2.0	3.0	2.0	3.0
Past conflicts are not hindering present day business activity.	1.0	1.0	4.0	1.0	4.0
We accept one another for who we are.	1.0	2.0	4.0	2.0	3.0
We listen to each other.	1.0	1.0	4.0	2.0	2.0
We have a clear picture of the future that is understood by all.	1.0	1.0	3.0	2.0	3.0
Policies and procedures are agreed upon and followed by all.	1.0	1.0	4.0	2.0	2.0
We are open with one another about business matters.	1.0	2.0	4.0	4.0	3.0
Business Orientation					
We have a professional management attitude in our business.	1.0	1.0	4.0	2.0	5.0
We make decisions based on what is best for the business.	4.0	2.0	3.0	4.0	5.0
Lines of authority are clearly defined in our business.	1.0	1.0	3.0	2.0	5.0
The way decisions are made is understood clearly by all.	1.0	1.0	3.0	2.0	3.0
Individual family members are accountable for their performance.	1.0	2.0	4.0	5.0	5.0

DiSC® ASSESSMENTS



PERSONAL INTERVIEWS

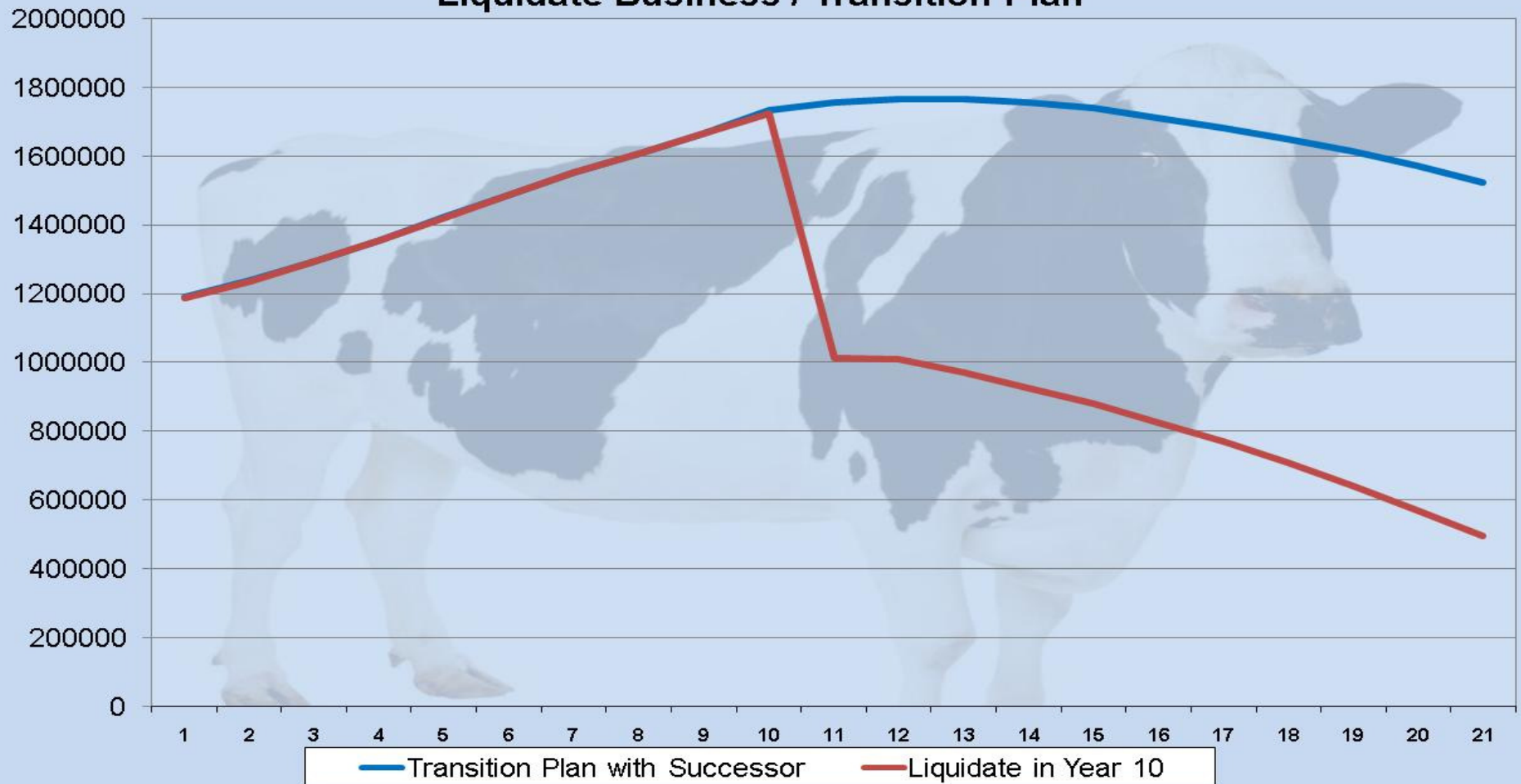
- **Define Goals & Objectives**
- **Gather Financial Data**
- **Introduction of Trusted Advisors**
- **Define Fair vs. Equal**
- **Search for “Dead Cats”**
- **Explore the Concept of Legacy**
- **Discuss Life After Farming with G1**
- **Ask the Hard Questions**

HISTORICAL FINANCIAL PERFORMANCE

Financial Measures and Ratio Numbers	Financial Ratio Benchmarks			2007	2008	2009	2010	2011
Liquidity	≥ 15%	10% - 15%	≤ 10%	4.5%	6.1%	7.5%	6.7%	11.0%
Solvency	≥ 40% MV basis	25% - 40%	≤ 25%	40.8%	49.4%	51.1%	55.1%	56.8%
Profitability	≥ 10%	8% - 10%	≤ 8%	16.1%	21.2%	21.8%	15.3%	12.2%
Operating Efficiency	≥ 25%	20% - 25%	≤ 20%	23.6%	26.7%	27.1%	23.9%	18.8%
Capital Efficiency	≥ \$0.75 BV basis	\$0.74 - \$0.50	≤ \$0.49	\$ 0.93	\$ 1.42	\$ 0.95	\$ 0.94	\$ 1.02
	≥ \$1.15	\$1.14 - \$1.00	≤ \$0.99	\$ 0.93	\$ 1.71	\$ 1.33	\$ 1.50	\$ 1.78
Debt Repayment Capacity	≥ 1.20	1.09 - 1.19	≤ 1.09	0.35	1.38	1.87	1.63	1.66

FINANCIAL PROJECTIONS

**FINANCIAL ILLUSTRATION
COMPARISON OF EQUITY OUTCOMES
Liquidate Business / Transition Plan**



PHASE I MEETING

- 1. Review Discovery Information**
- 2. Develop Rules for Entering the Business**
- 3. Review Goals & Objectives**
- 4. Secure Alignment of Leadership**
- 5. Prepare for Phase II - Plan Development**

PHASE II – PLAN DEVELOPMENT

Vision and Mission Statement

Transition Timeframe

Communication Process

Conflict Resolution Process

Code of Conduct

Roles, Responsibilities, Level of Authority

Management Transition Plan

Compensation Plan & Performance Evaluations

Ownership Succession Plan

Organizational Development & Governance

PHASE III - IMPLEMENTATION

Integrate CPA & Attorney Feedback

Tax Implications

Entity Design

Legal Documents / Estate Plans

Liquidity & Buy/Sell - Financial Analysis

Annual Meeting / Review & Update

WHY SUCH A PROCESS?

- **Enhance Financial Returns**
- **Preserve the Family Legacy**
- **Security & Peace of Mind**
- **Align Expectations with Reality**
- **Maintain Family Harmony**

MAJOR ISSUES IN SUCCESSION PLANNING

Demographics

- Average age of all principle US Farm Operators = 55.3
- Only 5.8% under age 35

Cropland Values

- FMV + 20 – 35% \$ 6,500 - \$ 9,000 in SC MN
- Well-capitalized buyers / Low debt levels / Some paying cash
- Hedge against inflation

MAJOR ISSUES IN SUCCESSION PLANNING

Deferred Liabilities

- Tax consequences without adequate liquidity

Market Volatility / Risk Management

- Grain Markets / MF Global

Capital Investment Required

Environmental & Animal Welfare

Food Safety / Point of Origin

OPPORTUNITIES FOR COLLABORATION

Speaking Engagements / Workshops

Legislative Review

Team Projects with Collaborating Experts

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