

FAMILIES AND **★★** THEIR FARMS: **★★★☆☆**

PLANNING FOR THE FUTURE



AGAMERICA
LENDING

Families & Their Farms: Planning For The Future

The number of family businesses throughout the industry is part of what makes ag great.

The people we work with on a daily basis truly matter to us because they are often our mothers, our fathers, our brothers, our sisters, our sons or our daughters.

But the connections within a family business also create challenges, chief among them the question of succession. When a family's financial well-being is tied so closely to the farm, many questions arise:

- Who will run the farm in the future? Do the kids want it?
- How will responsibilities be divided among siblings who all want to be involved?
- How will the next generation pay to buy the farm from the older generation?



AgAmerica is committed to understanding the needs of today's farmers and helping you overcome the financial challenges you face. To that end, we commissioned research of fruit, vegetable, citrus and cotton growers across the country to identify and better understand the family dynamics at play in their businesses, their hopes and goals for keeping the business in the family, their timeline for selling the farm and much more.

Growers were invited to take this anonymous survey in July 2015, and more than 500 completed it. We appreciate them taking their time to share their thoughts with us, and now we're happy to share them with you, too. Hopefully this information gives you some insight into how your family farm compares to others in the country and offers you some thoughts of what issues you may need to address if you're grappling with succession planning issues.

About the Growers

More than 530 growers completed the survey, and they were spread across the entire country. The respondents represented a wide age range, but they clearly trended older – the average age was 57 years old.

The growers reported they planted nearly 30 different crops this year. While

more respondents identified themselves as fruit growers (37.0%) than any other type of grower, the breadth of their production was evident given that 25.4% of them identified themselves as an "other type of grower."

Similarly, the survey collected information from growers of all-sized operations. The fruit and vegetable growers tended to be much smaller operations (average of 156 acres planted for 2015) than their cotton-growing counterparts (average of 1,317 acres planted this year), but that reflects the nature of their crops. Overall, however, the spread of survey respondents across the different farms sizes mirrors the broader industry as a whole, which lends further credence to the data.

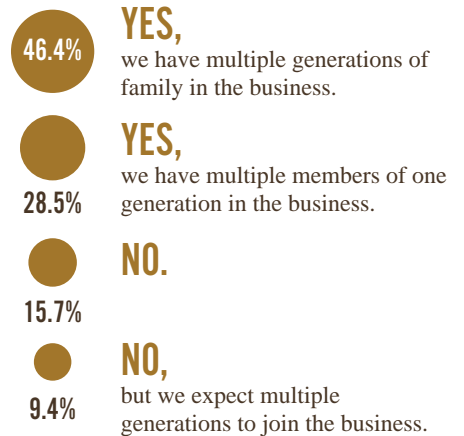
It's All About the Family

The prevalence of family businesses in ag was well represented in this audience. Nearly three-quarters of the respondents noted they are family businesses (and another 9.3% of them expect to be joined by the next generation in the future, thereby making them a family operation).

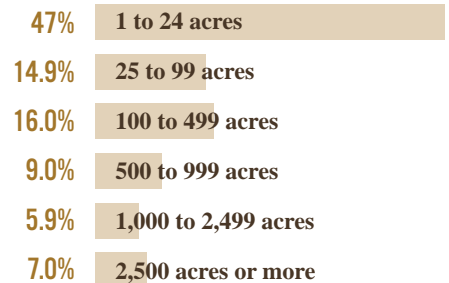
Responses were fairly consistent across the different types of growers, although cotton growers were a little more likely (24.4%) not to be family businesses than were other growers.

And the plan for these businesses is

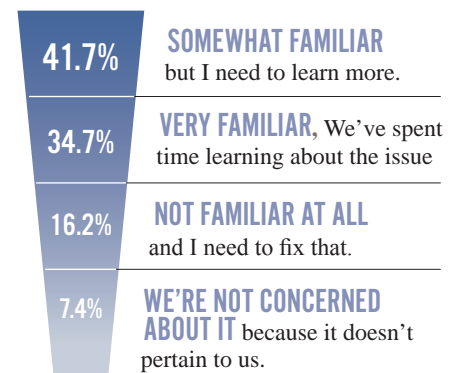
Is your operation a family business?



How many acres did you plant this year?



How familiar are you with succession planning issues/challenges?



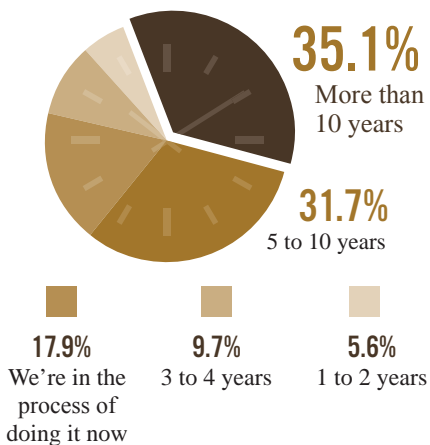


Do you plan to sell or transition the business to the next generation?

We definitely expect to do so	38.4%
We hope to do so	29.5%
We're not sure, but it's possible	13.6%
It's not likely	12.2%
No, it will not happen	5.4%
Not sure -- I'm not involved in ownership	0.9%



What is your time horizon for selling to the next generation?



What is your biggest concern when it comes to transitioning the business?

- #1 Setting the next generation up for success. (49.2%)
- #2 Whether or not they want to buy it. (16.5%)
- #3 Tensions that will be created within the family. (13.8%)
- #4 Financing the sale. (10.2%)
- #5 My ability to turn over control. (10.2%)

almost always to keep the farm in the family. Nearly 40% of all respondents reported they “definitely expect to transition business ownership to the next generation,” and that number jumped to almost 54% among the cotton growers. Only 5% of the respondents report already knowing that the farm won’t remain a family business.

The timeline for the majority of these transactions is well down the road, especially among cotton growers. More than 35% say they won’t sell the farm for at least 10 years and another 32.3% expect to do so in 5 to 10 years.

Given this extended timeframe for selling the farm, it’s not surprising that many of these families (35.2%) have yet to decide how they want to sell the business. The growers who have made up their minds clearly prefer an extended sale (45.6%) in which the next generation buys the farm in stages over time compared to those growers planning on selling the entire operation at once (19%).

Slightly more than half of these growers have answered one key question: Who will take over the farm when it is sold? In fact, more than 22% of these family-business operations note they have a written succession plan in place. Another 31% report having discussed succession as a family although they haven’t committed anything to writing.

Managing the transition of ownership from one generation challenges businesses of all types and has been known to lead to ruin for those who fail at it. Growers seem to recognize the importance of educating themselves as they embark on this process, and this is especially true among cotton growers, who generally report having more familiarity with succession planning issues than did fruit and vegetable growers. Overall, slightly more than one-third of the respondents said they have spent time learning about succession planning, but nearly 60% reported they know they need to learn more on the subject.

Business owners understandably worry about many things when thinking about selling their business, but one concern clearly weighs on them most heavily: Setting the next genera-

tion up for success. That was the No. 1 concern when growers were asked to identify all of their concerns as well as being the most common choice when they were asked to identify their single-biggest concern.

We followed up with a number of the growers who said setting the next generation up to succeed was their top concern so we could better understand their fears and learn what steps they might be considering or taking to keep the farm going, which is no small topic. As one grower said when asked what they’re trying to do to ensure their successor’s success, discussing their ideas and concerns “could last several days.” But their concerns clearly start with the farm’s financial health.

“SETTING THE NEXT GENERATION UP FOR SUCCESS WOULD MEAN FINANCIALLY AS WELL THE CONDITIONS ON THE GROUND AS FAR AS THE LAND’S ABILITY TO PRODUCE.”

“We are paying down as much as possible to make entry into ownership as painless as possible,” added another grower. “We also hope to have enough liquidity and diversification that we can withstand a reasonable level of economic shock which is bound to occur some years in agriculture.”

Other growers noted that preparing the farm for future success is a very literal concern. “Setting the next generation up for success would mean financially as well the conditions on the ground as far as the land’s ability to produce,” he said.

So many obstacles could interfere with farm owners’ ability to transition it successfully, but these growers repeatedly voiced a concern with one part of the transition: themselves.

“We should be providing support and advice but not dictating direction or particular decisions,” noted one grower.

"We have to work to ensure there is collaboration between the generations," added another.

Other growers are understandably concerned about navigating the complicated world of estate taxes and ensuring the older generation is able to get the money it wants or needs to retire while next generation is able to hold onto the farm.

"Over the years, I have seen lots of farms sold to settle an estate because the next generation didn't have the funds to pay the estate taxes and other expenses,"

noted one respondent, who adds that she and her husband already put the land and farmhouses in their children's names.

"When I was young, a good way to get a farm was to marry one or inherit one, but that could be tricky today."

Interestingly enough, many growers seem to be more concerned about the potential for disagreements in the office rather than in the field. They cite budgeting, handling of taxes, purchasing and crop planning as hotspots that could be potential landmines.

And, of course, there are concerns about issues arising among siblings looking to be in charge in the future. "I'm most concerned about ensuring seamless transitions, especially those that have to do with family dynamics and ensuring that there are no hurt feelings or disagreements regarding the next generation management," commented one grower.

In addition to creating their own legacy and helping the next generation get something of a head start on their own future, these growers see real opportunity for the farm to benefit from a new generation's leadership. "This next generation is bringing enormous knowledge and technology to the field," noted one grower striving to make his operation profitable enough to be turned over.

"My vision is that each of the next generation go spend time working outside of this business gaining experience in education, traveling, working for others and generally deciding that they really do want to come back," added another grower. "Hopefully, they will also bring back skills and ideas that further enhance what we are doing here."

The keys to successfully transitioning the farm will likely include a mix of education, preparation, communication, and perhaps, some flexibility. "Life often deviates from the plan," concluded a grower.

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About AgAmerica Lending

Whether you are expanding your existing ranch, buying a farm, or making long-term improvements to your farm or ranch, AgAmerica has the agricultural land loan that fits your needs. We work every day with agricultural professionals of all types, so we understand you and your financing needs.

For example, AgAmerica's Farm & Ranch lending program has no standard prepayment penalties, which is different from programs offered by other agricultural lenders. That means you can pay down your AgAmerica loan at your leisure, on a schedule that works for your operation.

AgAmerica is especially committed to working with family operations to help you navigate the challenges associated with passing the farm down from one generation to the next. We structure our land loan packages to allow the next generation to get a head start. For example, our interest-only 10-year line of credit is unique to the industry and helps families ensure financial flexibility in the future. The next generation can even apply for a 5-year extension to take advantage of this operating line.

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