

# Succession / Exit Planning

## Challenges and How to Position

## Your Operation for Success

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Managing Members

# Welcome!

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# Today's Agenda:

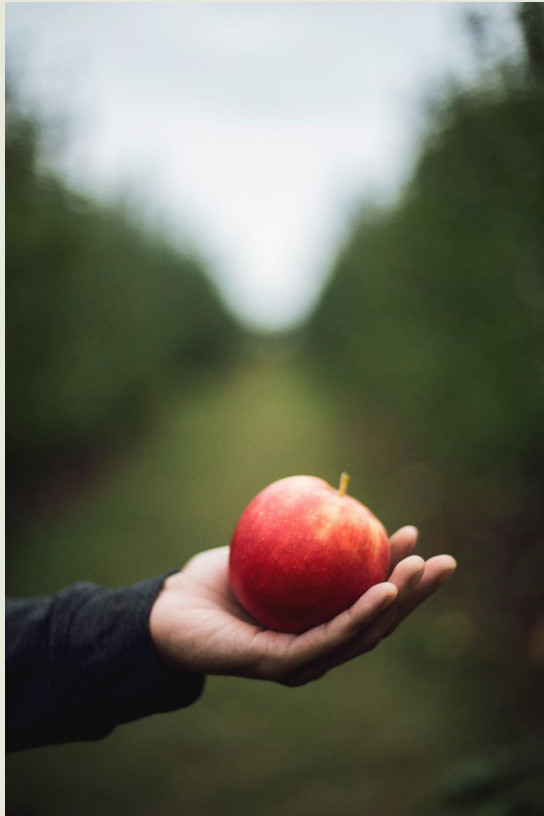
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- What is Succession Planning?
- External and internal succession challenges.
- Types of transitions.
- Important considerations for any transition.
- Tools you can use:
  - ✓ Business Exit Readiness Index™
  - ✓ Owner Dependency Index™.
- How can we help?

# What is Succession Planning?

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- A written plan for the succession or transfer of a business' ownership, management, and control.
- Derived from the owners' goals, an analysis of the available options, family intellectual capital, and a review of the financial and tax consequences.
- At some point, every owner WILL leave his or her business. The question is when, and on what terms?

# Why It Matters

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If some unplanned event forced you to leave your business today, would your future business match what you and your fellow stakeholders envisioned?

- ✓ If not, what would be the impact on your business?
- ✓ On your family?
- ✓ On your employees?
- ✓ On your suppliers and customers?



# Understanding the External Challenges

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- The “graying” of America’s farmers (Source: USDA 2022 Ag Census)
- Surging cost of land, due to competing uses and non-traditional buyers.
- Surging cost of inputs.
- Labor shortage.
- Regulatory and environmental pressures.
- Scheduled upcoming tax changes.

# Understanding the Internal Challenges

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- Ability of your orchard to support more households as your family grows.
- Financial independence for owners exiting the operation.
- Off-orchard heirs – Fair vs. Equal?
- Emotional factors: outdated documents, lack of coordination, fear & denial.
- An Estate Plan is NOT a Succession Plan!



# Types of Transitions

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**Internal Succession**

**External – Retain Land in Agriculture**

**External – Change Land Use**

**Not Sure - TBD**





# Types of Transitions

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## Internal Succession

- Next generation's desire?
- Next generation's readiness?
- Can they afford to buy you out?
- Are you financially independent?

## External – Retain Land in Agriculture

## External – Change Land Use

## Not Sure - TBD



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- Sell to management team
- Lease land to third party.
- Sell to local farmer?
- New farmer – Farm Link. etc.?

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- Subdivision
- Solar / Wind
- Commercial Development

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## External – Retain Land in Agriculture

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## Not Sure - TBD

- You're not ready
- Next generation is not ready
- Not financially independent



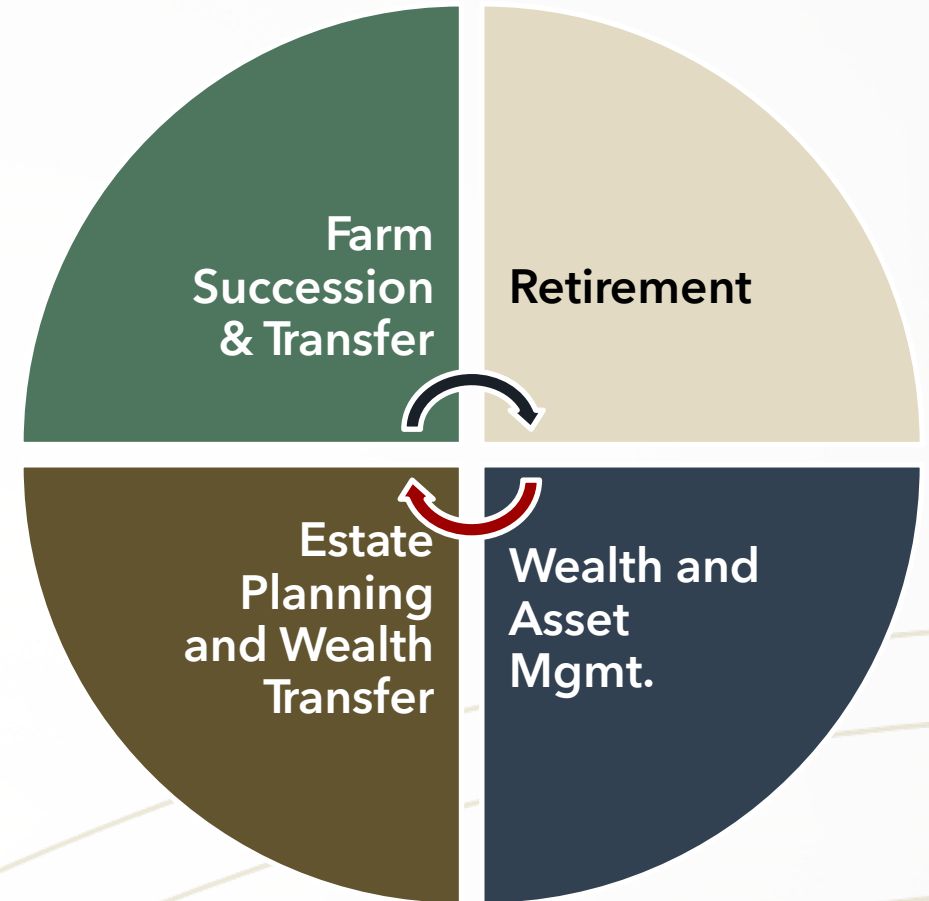
# Important Considerations Regardless of Your Transition Path

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- Four essential components
- Why every operation needs TWO plans.
- The surprising reason plans fail.



# Four Essential Components of a Succession Plan





# Why Every Operation Needs Two Succession Plans



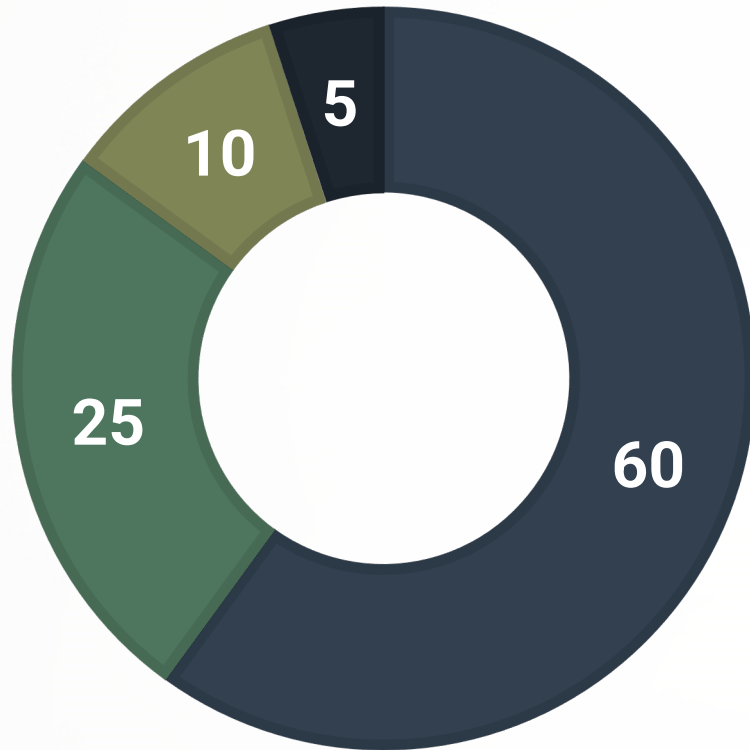
- The “Everything Goes Perfectly” Plan.
- The “Egg Truck” Plan.
- Sadly, most farm families and their advisors only plan for one or the other.



*Photos courtesy of James V. Crane and used by permission.*

# Why Plans Fail

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## Causes of Unsuccessful Family Business Transfers:

- ✓ 60% Breakdown in Trust and Communications.
- ✓ 25% Failure to Prepare Heirs
- ✓ 10% No Clear Family Mission Statement.
- ✓ 5% All Other Causes.

(Source: Williams & Preisser: *Preparing Heirs: Five Steps to a Successful Valuation of Family Wealth and Values*, 2003).



# Improving Your Odds of Success

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- For many families, the single largest financial transaction of your life, and there are no mulligans. Devote the time to get it “right”.
- Begin the process.
- Understand your emotional and financial readiness to exit.
- Understand the business’ dependence on your active involvement.
- Get the help you need to evaluate options, build and execute your plan.





# The Six Step Exit Planning Process

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1. Establish your exit goals.
2. Evaluate your financial and mental readiness.
3. Discover the type of owner you are.
4. Understand your exit options / paths.
5. Understand the range of values and tax consequences of your chosen path.
6. What is your operation worth? How do you know?
  - ✓ Businesses have a range of values. It's important to know yours before you get too far down the exit planning path.
  - ✓ Understand the income tax consequences: ordinary income, capital gains, recapture, etc. "It's not what you get, it's what you keep!"



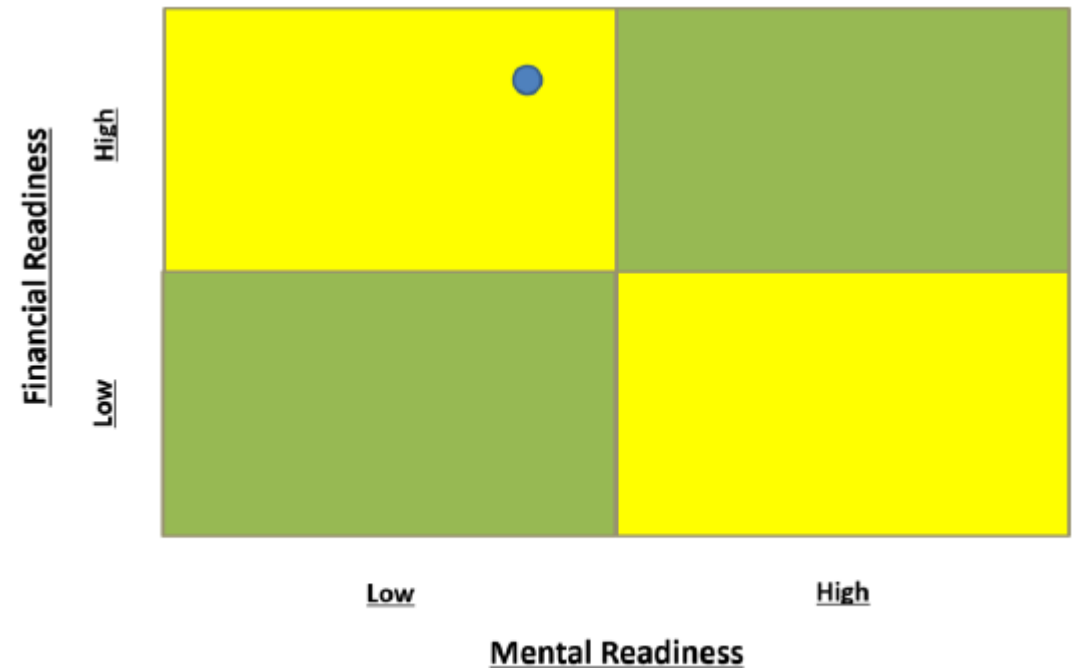
# Business Exit Readiness Index™ (BERI™)

The BERI survey explores whether you are financially and emotionally ready to exit your business.

- 20 survey questions;
- No financial information shared;

For example, this Exit Quadrant Chart indicates the owner enjoys his / her / their work at a high level and is not ready to leave the business today.

It also indicates the owner has accumulated financial resources outside of the business and has some (if not most) of the financial resources needed to fund their retirement / post-exit lifestyle goals.

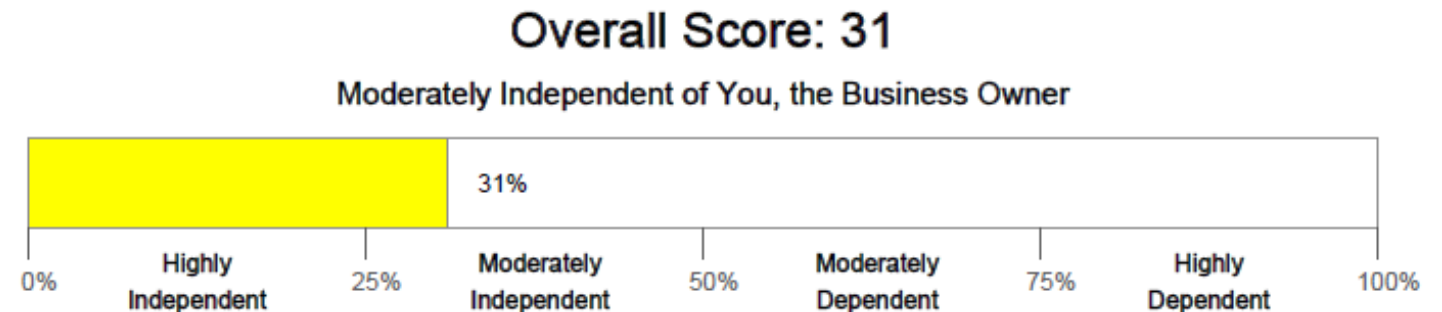


© 2008, John M. Leonetti, "Exiting Your Business, Protecting Your Wealth"

# Owner Dependency Index™ (ODI™)

The ODI is designed to assist you in determining how dependent the business is on your personal involvement. It measures 8 critical aspects, including:

- ✓ Owner involvement
- ✓ Internal operations
- ✓ Strategic planning
- ✓ Governance
- ✓ Financial matters
- ✓ Performance management
- ✓ Sales & business development
- ✓ Company culture.



**In the above example, the business is moderately  
Dependent on the ongoing involvement of the business owner**



# Business Exit Readiness Index™ (BERI™)

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# Owner Dependency Index™ (ODI™)

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[www.AgSuccession.com](http://www.AgSuccession.com)

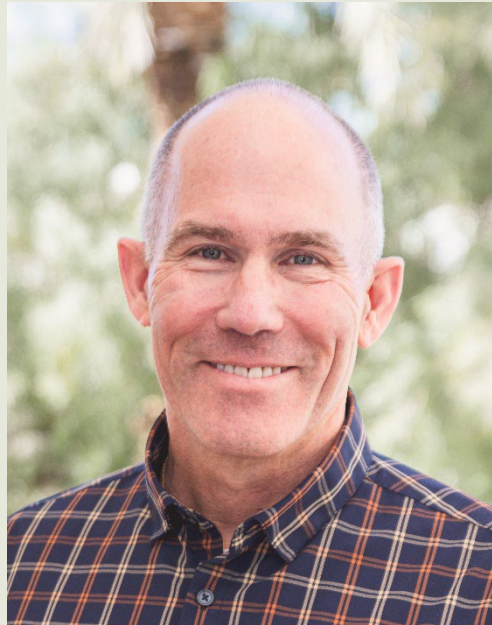
# How Can We Help?

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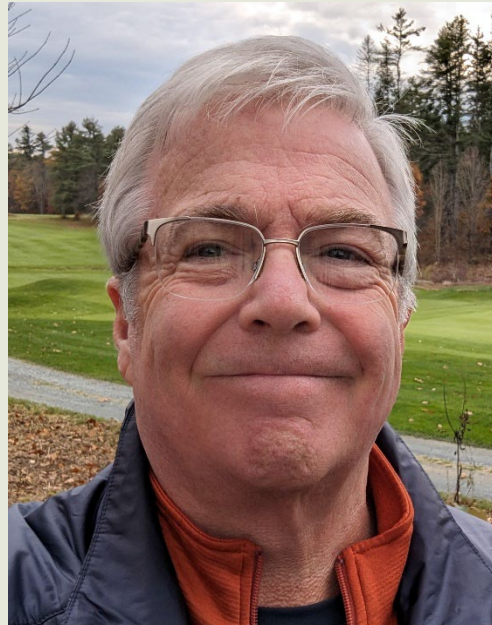
- *Business Exit Readiness Index™ (BERI)* assessment.
- *Owner Dependency Index™ (ODI)* assessment.
- Initial consultation for qualifying operations.
- Guidance in documenting your objectives and developing an action plan.
- Please stop by our table and say “Hi”!



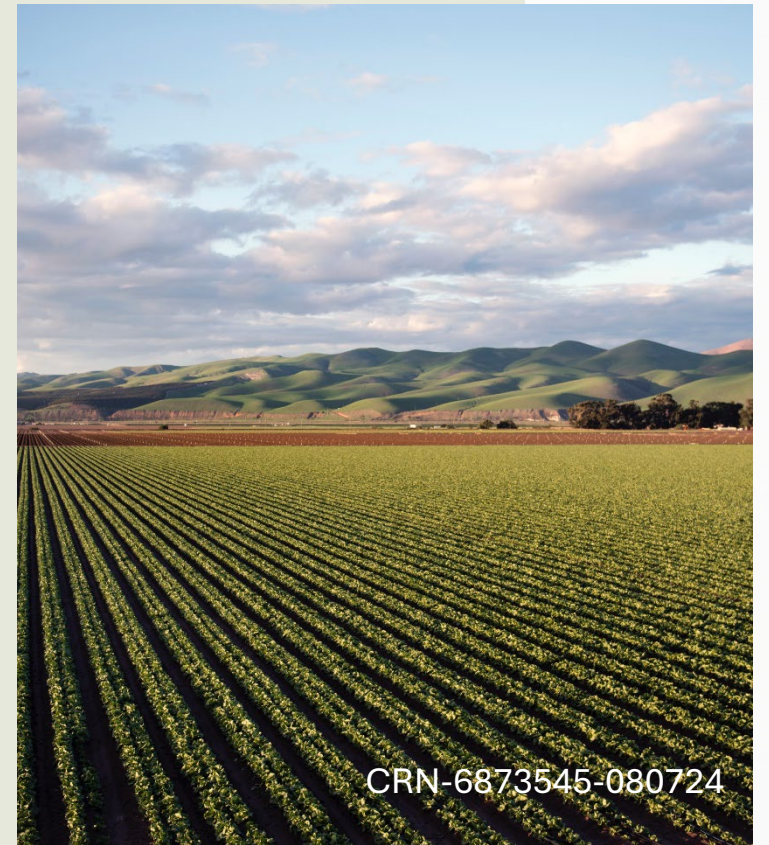
# How Can We Help?



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Thank You!

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