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The Top Five Ownership Transition “Inflection Points” for Agribusiness and Agribusiness-Related Companies

By Hillary Hughes

As you know, there are a lot of “moving parts” in the day-to-day management of a business. Between dealing with people, weather, tracking inbound and outbound flows and financial reporting, you may not have much time to think about your business’s ownership mix. Whether there is a single owner or multiple owners, and whether they are family members or not, sooner or later, the topic of ownership transition may come up. When it does, it can be a stressful conversation. However, it is a conversation that is ultimately inevitable.

There are any number of reasons why agribusiness owners decide it’s time to consider who the next owners should be, whether the successors are family, managers, employees or a third party. All agribusinesses, however, ultimately go through an ownership transition process. The issue is whether it is planned for or an after-the-fact reaction to something. What our experience tells us is that proactive planning for ownership transition, outside of just annual tax planning, leads to outcomes that are almost always more satisfying.

Time is the valuable commodity in transition planning. The more time you have, the better things will be.

Ownership Transition Strategies

There are several ownership transition strategies available for agribusiness owners. Not all will work in all situations, but all might be worthy of discussion and evaluation. Here are the ones that surface most often.

1. Transition and retain ownership within the family;
2. Sell some or all of the company to key managers;
3. Sell some or all of the company to employees using an Employee Stock Ownership Plan (“ESOP”) structure;
4. Sell some or all of the company to a financial buyer (such as a private equity firm);
5. Sell some or all of the company to a strategic investor or acquirer

There are two strategies that are left off of this list. The first is a simple liquidation of the assets followed by a termination of the business. For asset intensive businesses this may be an attractive option, but it does not provide for the continuity of the business nor does it reflect the earnings power of the company. The second is a public offering of the company's stock in an Initial Public Offering ("IPO"). The IPO strategy is typically reserved for much larger firms.

Inflection Points

If ownership transition is the effect, what are the causes? Wouldn't it be helpful to see those coming? Our experience has shown some common **"inflection points"** that can (or should) trigger action. These are some things that can show signals that it may be time for the consideration of a transition plan.

1. Age of the Company's Owner(s)

This one can be easy to observe, but dealing with it can be quite delicate. As the age of business owners in the U.S. climbs, proper exit planning has become more important than ever. The right time to exit a business is, in many cases, more a function of the state of mind of the owner rather than chronology or health. As such, there isn't a common timeline that owners follow, and many may exhibit a fair amount of procrastination because they are unsure about the process or the alternatives.

The age element becomes even more challenging when there are multiple owners of different ages. It is quite likely that they are not all operating on the same timeline. The tricky part that we've experienced is that it is unwise to assume that the older owner seeks transition first. This scenario presents you with both a problem and an opportunity. The problem is owners frequently believe that their only option is to sell the entire business. When there are multiple owners with varying timelines, this lack of information may stop the process in its tracks. So, it can be advantageous to be conversant on the subject and serve as the initial source of information and education for the Company's other shareholders. This can enable a frank, private discussion about ownership objectives and how they might be met by the array of attractive fractional strategies.

2. A "Hot" External Market

In the past several years, investment interest in farmland and agribusinesses has grown steadily. As a agribusiness owner, you may become aware of merger and transaction volume. At a robust market's peak, this information is almost unavoidable, but it isn't always perfect. If the market activity is strong and valuation multiples are rich, operators and owners may have developed thoughts about valuation. This may lead to a discussion of the topic of transition. If the marketplace is hot with industry activity, one should evaluate whether it is in its early or later stages in the cycle to manage expectations.

3. Internal Management Succession Status

Sometimes, an exit strategy is exactly what agribusiness owners want; however, they haven't discussed it with others in the company. When we're talking to operators and owners about ownership transition, management transition is always part of the discussion. Of course, it's a good business practice whether a transition strategy is being evaluated or not. For example, business owners who plan to pass on the operation to one or more family members must develop an approach to training their successors. Still, management transition planning can signal preparation for an ownership transition process because it plays directly into the results.

4. Observing Career Anxiety

Our next inflection point is a little more subtle. As owners near retirement age, their family members or employees often begin to wonder what the future holds. This preoccupation may lead to a sense of anxiety because they've witnessed elsewhere what can happen when a transition process occurs. And, in the absence of some messaging from the owner, they'll often fear the worst. This anxiety can impact family and employee behavior and the desire to stay involved in the business.

It is important to open up the lines of communication through family business meetings if family members are involved. On the other hand, it may not be wise to disclose too many details about an ownership transition plan, especially if the plan is not clear. Nevertheless, agribusinesses can find a

way to strike a balance between confidentiality and disclosure. Sometimes, it's as simple as saying what might be excluded from consideration. For example, telling the leadership teams that a 3rd party sale is an alternative that will not be considered. Such communication can allay concerns about whether the managers' jobs or business will even exist.

5. Observing "Value Protection Mode"

For many agribusiness owners, there may have been a period or two over the company's history when financial stress was encountered. As a result, some operators and owners don't want that history to repeat itself. Maybe you've heard the sentiment: "I don't want to go through that again!" For many, getting out of debt lifted a weight off of their shoulders, making them reluctant to re-lever. While this is a laudable desire, it can also result in missed opportunities as the owners protect their "nest egg". For family members or people who have built their careers at the company, this financial stagnation can be frustrating. It can also be costly, because if one company passes on an opportunity, another will likely pursue it, which can lead to eroded market share and, ultimately, lost value. Profitability is also important from a retirement perspective—the profitability of the agribusinesses must be such that the operator or owner can retire without adversely affecting the financial standing of the company.

Summary

We've outlined some of the key inflection points that can coincide with ownership transition planning for an agribusiness. In most cases, these conditions actually precede the discussion of the subject, or at least signal that a discussion could be beneficial. Owners should also be prepared in case others raise the issue when they spot one or more of these inflection points. When and how the conversation arises will be a function of the company culture and family dynamics, and, in almost all settings, it is nicely paired with a simultaneous discussion about management or leadership transition. Of course, the best case is for the agribusiness owner to be completely out in front of the process and avoid finding themselves in the position of reacting to one or more of these inflection points.

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