



Communication & Planning for Succession & Success

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Overview

- Communication is key in planning for succession of your business
 - About ANB Bank
 - Discuss Communication and Planning
 - Review Examples
 - Questions





About ANB Bank

ANB Bank is a \$2.6 billion, independent community banking organization with the strength, talent, commitment and security to fulfill the financial needs of businesses, individuals, and our communities.





ANB Community Involvement

- We remain an integral part of our communities by donating and by sponsoring non-profit events. In 2016 ANB gave over \$632,000.
- Our people actively participate in leadership positions to help further the organizations mission and purpose.
- We remain active volunteers in our communities through our Employee Volunteer Network Program.



ANB Bank Agribusiness Group

- \$30 MM Lending Limit
- Work with Livestock, Row Crop, Dairies, Feedlots, & Agribusinesses
- Work with Agricultural Borrowers in Midwest and Mountain West
- Decisions made promptly

ANB Bank Agribusiness Group

- RLOC for Operating needs
 - 2 – 3 Year Operating Loan Commitments
- Intermediate Debt for Livestock and Machinery & Equipment
 - 5 - 10 Year Terms
- Real Estate Debt
 - Long Term Fixed Rates held in house

Banking Centers



- 30 Banking Centers
- 21 Markets
- 3 States

Communicating With your Financial Institution and Other Advisors

- Has Your Successor Met and developed a working relationship with Your Banker?
- Does your Successor know the financial condition of the operation? Assets vs. Liabilities
- Have you discussed your succession plan with your banker?
- Has your banker, accountant, and attorney discussed your succession plan as a group?

Communicating With your Financial Institution, Cont.

- Have you projected what the new operation will look like after succession?
- Do you know the new obligations (debt payments, lease payments, owner distributions, taxes) of the new operation?
- Can the operation sustain a change in operation and obligations?

Example #1

- 5,000 Acre Ranch Operation with older owners and small amount of debt
- \$3,000,000 Valuation of Ranch that can run 300 Bred Cows
 - Ranch has \$500,000 Real Estate Loan and \$250,000 Operating Loan
 - Ranch is operated by the older owners and their teenage grandson.

Example #1 Cont.

- Owners have no succession plan
- Second Generation has no interest or experience in the operation
- Owners want the ranch to stay in the family
- Owners are pursuing a conservation easement to help eliminate Real Estate debt and will sell off the herd to eliminate the remainder.

Example #1 Cont.

- After debt is eliminated the owners are looking to lease the ranch to a 3rd party until the grandson can take over the ranch.

Example #2

- Owners have a Irrigated Row Crop Operations
- Owners have four children
- One of their children is involved in the operation and wants to take over ownership
- One Child Wants to maintain ownership but as an absentee landlord
- Two Children Want no interest in the operation

Example #2 Cont.

- Operation has the following debt obligations
 - \$1,000,000 RE Debt Annual PMT of \$68,000
 - Real Estate is Valued at \$5,000,000
 - \$250,000 M&E Debt Annual PMT of \$57,000
 - M&E is Valued at \$750,000
 - \$2,000,000 Operating Interest PMT \$45,000

Operation Produces \$375,000 of annual cash flow after expenses

Currently the Operation Covers its debt payments 2.2X

Example #2 Cont.

- Two Siblings want their 25% ownership sold to the sibling that is in the operation.
- New Real Estate Debt \$3,500,000
 - New PMT \$237,500
- New M&E Debt \$625,000
 - New PMT \$106,300
- New Rent PMT \$28,000
- Line Of Credit PMT \$45,000

Example #2 Cont.

- Previous Total Debt PMTS \$170,000
- New Total Debt PMTS \$388,800
- New Cash Flow of the Operation \$347,000
 - (\$375,000 - \$28,000 New Rent PMT)
 - New Debt Payment Coverage .89X

Example #3

- Farm/Ranch Operation
 - Majority Owned by Second Generation
 - 2nd Generation Owns Some of the Real Estate and two other siblings own the remainder
 - 3rd Generation Wants to take over and has been actively involved in the operation
 - 2nd Generation Absentee Owners want bought out
 - Another Part of the 2nd Generation wants to move from cash rent to shares and to make management decisions on their ground

Example #4

- 10,000 Acre Ranch Operated by 2nd Generation
- There are two heirs in the 3rd Generation
- One half of the 3rd Generation has moved back to manage and take over the ranch.
- Other part of the 3rd Generation does not want any interest in the operation.

Example #4 Cont.

- Ranch runs 400 bred cows and takes in 500 yearlings each year
- Ranch has \$750,000 in real estate debt owed to 2nd Generations Siblings
- Ranch has \$1,500,000 RLOC

Example #4

- Ranch Produces \$250,000 in cash flow each year
- Ranch RE Payment is \$51,000 Annually
- Ranch RLOC Payment is \$37,500 Annually

- Ranch Covers its debt 1.98X

Example #4 Cont.

- Ranch, Livestock, M&E, and Improvements are valued at \$6,500,000
- For the 3rd generation operating the ranch to buy out the other sibling would cost \$3,250,000.
- New Debt Payments if 100% of buyout is financed would be \$309,500

Example #4 Cont.

- 3rd Generation operating the ranch would like to own 100% of the operation but will not take on 50% market value in debt.
- 3rd Generation does not want to pass on debt to the 4th Generation.
- Currently they are working on a buyout/inheritance scenario to handle the transition without more debt than the operation can manage.

Conclusion

- Communication is vital in ensuring the operation can continue to stay solvent and around for other generations!
 - “Good communication is as stimulating as black coffee, and just as hard.”
 - Anne Spencer

Questions?