

Exit plans are for others

Our language has become full of abbreviations; CAP, BPS, EA, ACCS, EFA, CTS, HMRC! Every industry has its own acronyms meaning little to outsiders. Imagine a city banker listening to a conversation between two farmers on a crisp winter's morning somewhere on the South Downs: "Has your SFP arrived?", "No, the flipping RPA say I have put OT1 where it should say TG3". "Blighters! I haven't had my ELS, NE reckon my EE3 margins are too narrow and the EF2 cover plots have the wrong seed mix, clots! But the birds like it!" "I fixed my Euro rate, saved me eight grand. I've got to pay for the AN and MOP next month, thank goodness its come!" The banker, busy filling his cartridge bag for the next drive, gives up trying to understand what these two well dressed gentlemen are talking about and turns to his portly pal saying "What is your

exit strategy?" The farmers overhear and whisper to one another "I hadn't realised the banking crisis was that bad, let's hope they don't do it here!"

The misunderstood exit question reveals a serious paralysis affecting many agribusinesses in the UK. In the example the bankers are focussed on one specific goal – how many years they have to work before they can retire. Their efforts are concentrated on maximising pension funds, building property portfolios and making carefully chosen investments all designed to keep them in the style they like. For others exit plans will include getting the business ready to be sold, restructuring for the next generation or getting ready to explore exciting new opportunities. Key factors will have been identified such as achieving a specific level of profit or turnover, taking over a rival or building

enough cash reserves to weather any storm. In all cases timescale will have been considered.

Thus, whether it is the banker, the industrialist or the doctor they will all have one thing in common; there will be a plan formed and reformed but always maintaining focus on the core objective.

Over lunch the inquisitive banker sits next to the host farmer and asks "What is the future of your business?" Before the farmer has a chance to respond the quick financier had worked out that 1,200 acres of beautiful Sussex downland, four houses and a range of modern and redundant buildings must be worth £10 to £12 million. The farmer was even more surprised when his companion followed with "Your industry is lucky to have APR, I guess you and your children don't need to think about growth, achieving

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a measurable return on capital or delivering a profit to the shareholders?"

Some will argue that strategic plans and annual budgets are not relevant in the agricultural industry with cashflows often produced only to satisfy the bank manager when the overdraft is reviewed. But perhaps there could be tangible benefits from taking a serious look into the future no matter whether the business is large or small.

The dairy sector is under pressure with many but not all producers affected by significant price cuts. If the dairy unit is near to the end of its useful life and there are no successors then a natural exit plan emerges. But what if the next generation does want to stay in milk; will future prices deliver enough profit to pay the old and young generations as well as meeting the cost of the new unit, is there enough land for the bigger herd? If

rented will the landlord make a meaningful contribution and will the extra volume be enough to attract a buyer paying the best milk price? If the answer is no to any of these then what are the other options?

No matter what the enterprise, the questions are similar? If arable will there be enough scale to produce grain profitably even without subsidy? Can the business produce sufficient profit to feed all those that need a draw? Is more land likely to be available? Would a joint venture with a neighbour secure the future or should new enterprises be started to bridge the gaps?

After the last drive the bankers shake the farmer's hand thanking him for a fantastic day. As they drive back to London one said to the other "If I had that place I wouldn't ever think of retiring let alone risk handing it over to my children, they'd just spoil it!"



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