

# Kerry Ryan & Associates Ltd

**CONSULTANTS TO PRIMARY INDUSTRY**

## **Exit Strategies & Asset Values**

I have recently been involved in assignments where clients have been grappling with decisions around asset values as they embark on next step in their business strategy. With the average age of farm owners around 60, many are looking for options that will enable them move on to new horizons such as retirement or downsizing to eliminate excess debt.

Some situations are the result of ownership structures have become complicated by involvement of multiple generations of owners including family enterprises approaching the end of their life cycle. Others are owner operators who wish to adopt a realistic view about their debt levels. Each involves the challenge how to capture and protect hard earned wealth.

These scenarios each involve the challenge of establishing acceptable value -- in particular, realistic assessment of the value of land. Memories of historical capital gains remain fresh in many farmers' minds and with relatively buoyant product prices currently available there is understandable temptation to persevere in anticipation of another upswing in asset values.

There are two important points to consider when addressing these situations.

The first is realism about the likelihood of gains in land values. While no doubt potential for fluctuations remains, a relatively dysfunctional international and national capital market makes prospects for asset growth remote. The global financial crisis has confirmed the importance of businesses being appropriately geared through realistically priced assets and debt levels that will deliver positive cash returns. The ability to pay down debt over an acceptable timeframe is critical to this.

There is no question that the traditional approach to debt servicing through regular principal and interest repayments was something overlooked in the boom times that lead to the global financial crisis. A relatively high proportion of New Zealand businesses still have their debt structured on "interest only" debt servicing. Those who continue to rely on this type of debt structure will need to confront the reality making meaningful debt repayments sooner rather than later.

My view is that the market for farming assets is now very much driven by what will deliver sustainable cash returns for purchasers rather than seeing them capitlise future profits into rising land values as was the case in the past. This, combined with more prudent lending policies by bankers, will inevitably reduce the potential for capital gains for farming land.

The second factor is perhaps more important. Decisions confronting many who wish to exit farming are as much about securing their preferred retirement lifestyle as they are about reinvestment in its own right. A key determinant of what represents acceptable asset values in these situations is whether prices received will allow the vendors to meet their needs for the next phase. It is vital these are quantified so evaluation of scenarios is based on concrete facts and figures that enable prudent decisions to be made.

I find some people facing these types of decisions are inclined to dither if they have no clear vision the next phase.

There is nothing like securing a contract to purchase residential lifestyle property or secure passive investments to motivate previously uncertain owners to become committed sellers.

Decisions about asset values can be heavily influenced by the age and stage of the owners. The old adage that successful investment is less about timing and more about time in the market tends to be less relevant when retirement beckons. Commitment to proceed is often best driven by recognising the time to act is right for the business owner's personal circumstances rather than being too hung up about getting the timing right in the market.

It is important business owners are realistic how many good summers remain for them to enjoy the fruits of their hard earned wealth. It concerns me to see some who risk hanging on too long and limiting their opportunity to enjoy their sunset years.

This whole area presents a number of dilemmas and is one where sound advice and credible economic thinking can add real motivation, confidence and value.

***Kerry Ryan is a Tauranga based Agribusiness Consultant available to farming businesses face-to-face or online for advice and ideas. You can contact him at [www.kerryryan.co.nz](http://www.kerryryan.co.nz)***