

Acquiring More Acres

This winter while traveling throughout the Midwest and High Plains I asked producers: What is your biggest challenge? Often the response I got was the difficulty they have renting or buying additional land.

How true. The Top Guns in cash grain farming in America can get all the money and equipment they need, but getting the land they need is more difficult.

Using some different tools to sight in opportunities and still accomplish your mission can benefit you.

A new technique is farming operations purchasing ongoing operations to expand. Mergers and acquisitions used to be common only in corporate boardrooms throughout America and the globe, but they will move to corn and soybean farming.

There are two types of operations that may benefit from this type of strategy.

- **One is the operation** that is approaching decision time to move on to something else (formerly called retirement) and no family to come home and take over.

In the past, this type of operation looked at a liquidation sale. Even after a successful career in farming there is a negative stigma associated with quitting and having a sale.

- **The other type** of operation is one with additional resources and expansion goals.

How is it done? As an example, a 1,200-acre farmer who owns 600 acres, rents 600 acres and is looking at an exit strategy might rent his owned land to another farmer and sublease his rented land to the same farmer.

For equipment, you could have it appraised by two dealers and sell it along with the leases to the acquiring operation. The advantage is not having a liquidation sale, which saves time and expense.

The advantage to the purchasing party is they get the needed assets or have tradable property to increase equipment size, number of items or to take advantage of improved equipment technology. The second advantage is the acquiring farmer gets a block of land, probably contiguous to help reach his expansion goals.

Additional value can be transferred in the deal by transitioning the seller's expertise and assistance over time. This could be in records and data on the farms and fields, public relations assistance in transferring leases or subleasing, or advisory work in another function.

I'm aware of situations where a farmer looking to exit the business still had time and interest in helping at planting and harvest, but didn't cherish the financial and marketing tasks of the farming business. He ended up working for the expanding business and liked it more as he was operating newer, more convenient equipment. It's not a partnership; just win-win opportunities that benefit all parties and help them meet their goals and get what they want.

How much additional value is sold or acquired is dependent on each situation since they're all different.

Someone selling and itching to get to Florida or Texas may not be able to capture the value in the transaction that someone can who is willing to transition the sale and assist wherever he can. ■

Value The Business

In the February 2006 Profits article I wrote about valuing your farm business not only on its balance sheet value, but also on its intrinsic value. Those concepts can be applied to determining what to pay for an ongoing farming operation.

Intrinsic value depends on the future value of anticipated or historical cash flows. These cash flows could be impacted by data transferred with farms, technology, management or employees.

What you pay for an existing farming operation depends on a number of factors. I know of one deal that included two longtime employees who came along with the leased land. There is real value there.

Information on fertility of the land, production history, tile and drainage maps all have value and that value can be transferred. ■

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