EPISODE 05

[INTRO]

[00:00:07] RA: Thanks for listening to the Sell My Business Podcast, brought to you by Acme Business Brokers. Acme Business Brokers is a matchmaker for buyers and sellers of select business. We help our clients identify, refine, valuate, and leverage their assets leading to the successful sell or purchase of their business.

[INTRODUCTION]

[00:00:32] RA: So I wanted to take a minute and just, as a new or existing listener, make you aware of a free tool that we have available for you. Whether you're a buyer or a potential buyer of a business or whether you're a business owner that's looking to sell your company, we have created a free tool which is yours for the taking. If you head to our website, which is acmebizbrokers.com and then right there on the main page, just click on the link for the acquisition preparedness checklist. Then there's one for buyers and then there's one for sellers.

What's useful about this is a lot of times when individuals start to think about selling or buying a business, it's a good idea to just start understanding some of the factors that you'll have to deal with at some point during your transaction, and we've organized a fairly comprehensive set of questions and then put them into a checklist format so that you can use them crazily to just get a beat on what you're facing, what you'll need to think about and what all will be involved in the purchase or sale of a business. Go on over there and grab that. Again, it's a free tool. It's called the Acquisition Preparedness Checklist right off the main page of acmebizbrokers.com. Enjoy it.

[INTERVIEW]

[00:02:01] RA: Let's begin here. I want to start by welcoming Walter Carnes. He's our guest for today's Sell My Business Podcast. It's a little bit of a special podcast in the sense that the topic may seem like it's fairly niche, but it's actually very relevant, because many of the things we'll discuss transfer directly to other business operations and a lot of the same considerations come up in all types of businesses.

I met Walt through a mutual friend and colleague and have been collaborating with him on a couple of different projects. He's with a firm here in Bowling Green, Kentucky, United County Real Estate and the Hartland Group, Hartland Realty Auction Group and it's been a pleasure to get to know him a little bit over the last six months or so.

[00:02:55] WC: Yeah, six months. Maybe – Something like that.

[00:02:58] RA: We've been collaborating on one project in particular, but every time I talk to Walt, I learn something. I wanted to get him on here and to talk a little bit about what he does. In the intro you heard my description or bio for Walt. Why don't you tell us a little bit about yourself and your background and what your area of expertise is?

[00:03:17] WC: Okay. I grew up in Starkville, Mississippi, which is where Mississippi State is. I went to Mississippi State, majored in Dairy Science and then after I got out of that, I went into the dairy business for about 10 years milking cows and growing feed crops and soy beans in the Starkville area. Did that for about 10 years. Got a chance to move in to the Mississippi Delta into farm management with an old high school buddy and spent about 10 years in the Delta Farming and managing farms. Got married and had a kid and all of that stuff that happens after that. Started out managing for what turned out to be my brother-in-law. Took over some of the family land that they had and we farmed that too about 1988 when we moved to Bowling Green.

When I moved up here, I had always had a lot of interest in auctions. There was an auction Duck Hill, Mississippi that a group or a farm out of Franklin, Kentucky, which is where I live, was doing on a big tract of land that I think John Hancock might have owned it and they were selling it. I met them, I went to that action and met the people and ended up moving up here and going to work for them. We put together several auctions in Mississippi. Did a 10,000 acre auction all up and down Highway 45 and did it at the Golden Triangle Airport. That was a very interesting auction. Met a lot of great people. Had a great time. Very successful sale which led to some others.

That's kind of what got me up here. Then a little bit after that, I had a chance – So I got into real estate too, got a real estate license. My wife had gotten a real estate license in Mississippi, and being farm family, she even wanted to kind of major or her business was going to be farms. It was kind of such that she'd get them listed and I'd show. I knew that part of it. I didn't have a license to list them, but she did, and then she could go along with me or we just made a kind of a tea out of it and would show farms. That worked pretty good. Anyway, I brought that back up here. Got a real estate license and did farms, houses. I had the exclusive for City Financial on their repossessions, and this was kind of right before the big crisis of 2008 or 9, and I think they were kind of part of that debacle right in there. But I ended up with several foreclosures and sold from Hopkinsville to Tompkinsville, and from Elizabeth Town down to the Stateline, south of Franklin. That whole area right in there provided pretty good many auction or foreclosures. Had a lot of experience in working deals that were hard, because the circumstances were not good. But it provided a lot of experience.

In the meantime, I was selling farmland. Got a property over in Eastern Kentucky, which was about 5,400 acres of coal mining property. It was three mountains and it was called Pathfork. I kind of named it Pathfork Energy Resource Property, because it had a lot of other things other than coal on it. It had been in the family since 1912 and it started out as two business partners. They weren't related. Started acquiring land in the Pathform Middlesboro area about 1912, and by 1920 or 22 I think they had about a little over 5,000 acres of coal mining property over there. They were a land company. They weren't in the coal mining business, but the property was developed two mine coal. It had several underground mines and a lot of timber. It had a big saw mill on it.

At one time I was told that were 5,000 people living on that one property right there. When I listed it or when I was talking to the guy who was representing it, it was a true C corporation when it was setup and it had been maintained like that. But it got into the point where there 16 major stockholders and those 16 got to the point where they couldn't agree on a lot of things. When we finally got it sold, there were 64 checks cut. That's how it was divided up.

That right there kind of taught me that there's a lot of things that need to be done to plan a liquidation other than just saying, "Well, I think we need to sell," because this thing probably should have been sold 10 years before it actually was because of that situation right there. It would have been a whole lot easier.

In the end, we had to hire a private investigator, a firm to find three heirs. One of them was in San Francisco living under a bridge. We made his day when they found him, but I don't remember was size check he got, but I'm sure he appreciated it. He might have been able to buy a little bit bigger box to live in under that bridge.

Anyway, that was quite an experience. But in the meantime after I had met several people that had farming operations in the Midwest, and one of them had a big dairy development operation where he built dairy farms for Dutch landowners or dairy farmers and they would come over here with a suitcase full of money. It was pretty easy to get a visa if you had a million dollars on a suitcase that you would bring here to put in a business back in the early 2000s. He could get them a visa pretty quick with something like that. They'd leave Holland and come over here, two later would be milking 1,500 cows in an operation that was setup and built especially for them. They couldn't speak any English and most of the people that were working for them couldn't speak any English either. Their native language was Spanish.

[00:09:51] RA: Diversity enclosure.

[00:09:52] WC: Yeah, it was. It was quite a deal. But those were some really interesting operations right there, and there's one similar here in the Russellville area, and we went out and visited it one time. That was a good day too.

[00:10:07] RA: Obviously, they started collaborating, is there a business that we've been talking to that is looking to potentially exit, the owners are? It obviously involves agriculture and farming and we needed an expert. So we collaborated, partnered with Walt. Looking at the business, that one in particular has two or three kinds of operations on the land. What are the common models that you see for these types of transactions where there's vast acreage and then they have farming operations. You were just mentioning like dairy farming, but there's probably like models.

[00:10:42] WC: Yeah, there's dairy and there's beef operations. A lot of dairy operations will have a small beef herd, because they either want to incorporate – Or they have bull caves or something that they can't – You can sell them as a baby or you can raise them on out and sell them at a little bit higher weight and make a little money off of them that way. But most – I won't say most, but a lot of dairy operations will have a small beef herd if they have a land that will accommodate it. Some of them, if you got a big green acreage, they'll have a hog operation too, because you can increase the value of corn by running it through a pig and selling a pig that way. There was an article written a long time ago that I wish I had saved and I have tried and tried. I've Googled about everything I could think of trying to locate that article, and it was in Farm Journal. The title was not this, but it's basically how great-great-grandson, lost great-great-granddaddy's farm. When great-great-granddaddy, or maybe great-great-great-granddaddy came over here from Europe, they moved on a piece of land and it had woods on it, it had a rock pile on it, it had some good bottom land. Just a typical, what I call Kentucky type farm here, we have the same thing.

They started trying to figure out how to make money. I mean, that was how to support the family and that was what they did, and they found out that they could raise crop in the bottom land, but they'd have some land over here. It was full of rocks and they could take that corn that they could grow and store it and then feed it to hogs or something like that. Those hogs could live on those rocks real easy. It was easy to feed off of that. You didn't had to pour any concrete.

Then they had some pasture land where they'd grew grass and you couldn't farm it because it was probably too steep. So they put a few cows out here. They would have beef cows or beef and then they might throw a few dairy cows in there, dairy type animals and decide to milk them. They always had chickens running around on the farm lot. They had eggs and chicken for Sunday dinner and all these kind of stuff.

As the family grew, the need for bringing family members in to the operation was there too. You didn't have a job you could go in town. The family farm became quite an operation. You might had one son doing this and one son doing that and another one doing another operation. So it just grew into a big family farm. But in today's structure, people might look at that and say, "Well, that's a corporate farm right there," but it's actually a big family farm with a lot of different fingers in it or avenues that produce cash. They also produced debt too in a lot of cases, but they'd produce cash.

As times going on and the farm was kind of passed down through the family to a certain person or a certain family member, because as time passed and it was easier to go to town and get a job where you didn't have to work quite hard, you had a steady paycheck, some of the family members wanted to do that. A lot of the girls in the family decided that they didn't want to farm and the husbands that they married didn't want to farm either. They weren't raised on a farm.

It got to the point where you might have a family of six or six children and three of them didn't want to farm and say two did. Well, those brothers right there might form a partnership with the farm and then something might happen to one of them and you get it down to one. Well, that one decided, "There's a whole lot of work here. I can cut some of these out, one of these operations, because I'd rather grow row crops than I had to feed, go out and feed pigs or feed cattle in the middle of the winter.

[00:15:07] RA: They would start cutting out these operations.

[00:15:09] WC: As they would cut them out, they didn't realize – I'm sure they probably did, but that time it didn't matter if they weren't cutting out cash flow. As they would cut one out, all of the sudden the cash flow was gone.

[00:15:23] RA: It diversified cash flow.

[00:15:24] WC: Yeah, diversified cash flow, because all of these markets, all of these stuff go up and down. What might be up for one is down for another one. With cattle operations a lot of times, cattle and row crop operations, the row crop might – The prices for grains might be really good, which is bad for the cattle operation, because it makes a higher cost to feed cattle. Whereas if the corn or whatever the price drops out of that, then it's good for the farm and operation on the cattle.

The diversity there, it all averages out in the end. So your cash flow is relatively good even though each operation may not have the best thing, and with the tax structure that we have now, a lot of these farms had kind of made different operations out of them where one is losing money and another one is making money. In the end, you've got tax benefits with it too. All of that comes down to play.

But back to the great-great-grandson, as he cut things out, it cut out cash flow. Before long, he got down to where he was just row cropping and he'd farm in the summer time and spend the winter time down in Florida playing golf and out on the beach or whatever. He'd come back in the spring and plant a crop and get it to where he didn't need to do anything for it till harvest and he'd go back Florida or go to the mountains or whatever and have a good time.

All that cost a little money. So when he came back and harvested his crop one year, he had a short crop and he didn't have enough money to payout. It kind of just built and built and he didn't have the other operations to offset some of this stuff. Before long, he had lost his ancestor's had built. That's kind of the way it has come.

[00:17:26] RA: Some of the other things are kind of related to this that you and I were just talking about a while ago. The other ways that farmers have chosen to diversify or to augment their cash flow in terms of like real estate, commercial development, [inaudible 00:17:42] was one way you're mentioning to me. There's other stuff too. But some of these other things they've done have also impacted their overall operations. Maybe describe that?

[00:17:51] WC: Yeah. A thing that I kind of know a little bit about is as I was meeting people, I met a farmer in Ohio that they were farming about 35,000 acres, he and his brother, and they had several sons and the son-in-law that needed to come into the operation, but they had rented about all the land they could rent in that area. It was time to figure out another avenue, and when he and I got to talk and he found out that I had connections or roots in Mississippi, and specifically the Mississippi Delta, he had been through the Mississippi Delta and had tried to rent some land down there, but didn't have much luck.

Anyway, we ended up renting land down there and two of the sons and the son-in-law just moved their operations or their parts down there. In trying to make an operation that would support them, they ended up having to relocate, and that may be what some of these stuff or some of these operations may end up having to do is you have to go where the opportunity is, we ended up setting up a 20,000 acre farm and operation in the Mississippi Delta, and one of them is down there now. The other one is still back in Ohio, the other brother. He kind of runs back and forth between the two and one of them has moved down there to run that.

That's what you can kind of diversify there is relocate it. Some of these operations here and anywhere, I guess, if you ride up and down roads you see all of a sudden three or four, five houses right next together or scattered out down a road. Behind it is a big farm land. That was probably a situation where they came up with a short crop one year and needed some cash and decided that Joe Blow in town expressed and interested if they ever wanted to sell a lot, they'd buy and build a house. That's where a lot of these stuff happens, is they'll either sell them a lot or subdivide a corner where you got two roads coming in together and you got a lot of road frontage right in that one little area and you can sell off some lots and maybe build a street down through the middle of it, produce some cash flow just selling land. That's some way to diversity a lot of these.

[00:20:30] RA: Renting is another model.

[00:20:32] WC: Yeah, renting land is an opportunity. There is a whole lot of – Probably, the majority of land is actually rented land with an absentee owner, and I say absentee, he may live in town or he or she may live in town or own the farm, but it's farmed by somebody else. That's where a lot of smaller operations have been combined by one farmer renting land, another one retiring and renting his farm to somebody else. That's kind of the way farms have grown now. You might have somebody that 15 years ago was farming 500 acres, and today they're farming 5,000 or 6,000 because of the need. I mean, that's about what it takes in order to have a pretty successful row crop operation in this part of the world.

[00:21:21] RA: You need space.

[00:21:22] WC: Yeah, you got to have acreage. It's just like anything else. Volume now is what it takes.

[00:21:27] RA: Having a lot of the – I'm asking you, but having a lot of the land parcels here have been segmented up to smaller portions now. I mean, there's not a lot of contingency plans.

[00:21:39] WC: There are not a lot of big farms, and that was – There are a lot of big farmers, but there's not a lot of big contiguous land farms, because back hundred years ago, 50 years ago, you could farm, say, 150 acres, 160, 280, 300, something like that. A family could handle that with tractors the size they were with 45 to 65 horsepower tractors. I can remember in the 60s when 100 horsepower tractors were coming in. Then about 112, something like that, horsepower, and it seemed like you moved the world whether you're still pulling equipment with them that you use when you're farming with about 50 horsepower tractors. It was a whole lot easier to get things done.

Now, today, tractors have grown into 350, to 400, 500, 600 horsepower four-wheel drive tractors, but they're still farming on land that is actually owned, say, 180 acre tracts or something like that, because that's what has been passed down through generations and it's rented to the bigger farmers. It's rented that way.

[00:22:57] RA: It's like a consolidation of operations and resources.

[00:23:00] WC: Yeah, but the consolidation, I guess for a little while maybe land was kind of bought. You always heard the old saying that, "I don't want to own the whole world. I just want to own what joins me."

As a parcel came up for sale, a lot of times it was bought by the adjoining farmer. He just incorporated it into his operation, and that's the way it was passed or it was transferred. The operations got a little bigger. The land tracks or what deeded to a particular farmer would grow a little bit. To me, that's the way land prices have kind of escalated really beyond what really makes a business sense, and that when you have somebody wanting to buy something and it joins him, he's willing to pay a whole lot more for it than somebody who just comes in from out of the area and says, "That land is not worth that."

Well, it's not to him, but it is to the guy that joins it. A lot of times his was already paid for, so it didn't make a whole lot of difference. He just might put up his whole farm operation to buy the other piece, even though the dollars and cents didn't make a whole lot of sense.

Up until, I want to say 10 years ago, 8 years ago, the Mississippi Delta itself, and that's what I probably know more about, was I want to say one of the last areas where you could rent land based off of what it would produce. There was a lot of land that was bought by hedge fund, Ritz and some pretty rich individuals who were trying to diversify their portfolio. They pull money out of the stock market and stick in land, because land is a pretty stable investment. It doesn't return a whole lot of money, but it is stable and it appreciates. You've got two, three things going for you there.

But the land in Mississippi would kind of – If it'd be based off of it would return, say, 5% of what it cost back to you every year. So if you're paying cash for land, you could usually make about 5% off of it on the rent, which wasn't great, but it was steady and it was pretty safe.

[00:25:29] RA: Yeah, consistent.

[00:25:30] WC: It was consistent. You have that cash coming in, plus you had the land and it wouldn't go down you. It wasn't going to break down on you or anything like that. It was something that wasn't a firm investment that you were making, plus it would return money.

[00:25:48] RA: True definition of an asset.

[00:25:49] WC: Yeah. It was a true asset. It wasn't like a piece of stock or something like that that would go up or down or have no value.

[00:25:57] RA: One thing you mentioned, which I want to touch on and you have experience with this, is institutional money started pouring in, like you said, about a decade ago.

[00:26:06] WC: Yeah.

[00:26:07] RA: Talk about that just a little bit.

[00:26:08] WC: Yeah, that's fine. We rented a lot of land down there from institutions that had money in them that were one area that I know specifically was a lot of states. The teachers, public school pension funds, would go into a fund and a lot of those funds ended up in land investments. They kind of wanted them that way, because they were stable. They wouldn't make a whole lot of money, but it was something. It was a whole lot less risk than the stock market. If you had a pretty conservative group that was running it, running the fund, they didn't want a whole lot of risk. They weren't out to try and get 20% on it. As long as it would return 5%

or 4%, 5%, they were pretty happy. This one particular fund that we rented land from, at one time had over $20 billion to invest in farmland. He invested all in Mississippi, but they invested a pretty bid.

They went from something like having no land in Australia to having about being the largest non-Australian landowner in Australia. This was back in the early 2010, 11 in there. That wasn't all teacher fund money or anything like that. There was a big institution that had a lot of money coming in it. But that was something that was really interesting. They had all of these money and they needed to put it somewhere to go to work. This was when the stock market had fallen out, right after the big housing collapse and everything. They just pulled a lot of money out of a lot of things and they just had cash and they needed to put it somewhere, and that's what they did, was put it in farmland. They bought a lot of farms, nut farms in California. They were a big buyer in California and Florida in orange groves and stuff like that. They bought a lot of row crop land in the Midwest and in the Mississippi Delta. I don't know whether they got into Texas or not, but I feel fairly sure they got into Rio Grande Valley. But that is a place that a lot of money goes that people have no idea.

It's really interesting. I went to an auction in Ohio, and there was a 5,000 acre tract that was owned by this dairy development company, and that's how I got to know a little bit about it, was they owned it and he asked me, the guy that owned it – He wanted me to come up there and take a look at it, because he needed to sell it. Dairying had gotten pretty bad and needed to try and liquidate that farm. He was, at one time, going to develop it himself and put a 25,000 cow dairy operation on it. It permeated to milk 25,000 cows on it.

When it ended up going to auction and the person that ended up buying it, and I'm sure he probably knows that he bought it, but he probably doesn't, was Bill Gates, Microsoft guy. It was his foundation that ended up with that property.

[00:29:33] RA: Yeah, they've been buying a lot lately.

[00:29:34] WC: Yeah, they're a big landowner in the United States. I think Ted Turner might be one of the largest, the largest in the United States individual that owned land, but Bill gates owned a lot of land too. They are great person, a great organization to have as a landlord, because they're into preserving land, doing what it takes to make it produce to its maximum. Plus, they're very environmental folks too.

We rented some land from a lady who ran a hedge fund in Mississippi. She's in Kansas City now, but her big deal was environmental. She wanted land that's sustainable to agriculture market was just kind of in the takeoff where you could do things. It wasn't organic type, but it was pretty close. You had to do a lot of things, and she was trying to get that kind of money brought into her fund. There are a whole lot of ways to diversify that. A lot of niche markets there and places you can shop for money to buy these farms.

But we rented pieces of land from her. It had a tenant on it the year before that didn't do a real good job of farming it, and she had just bought it. When we got it, it was pretty well-grownup. It was really ugly looking farm, but when we got it, one of the things that we had to do was try and be as environmentally friendly with it as we could. We went in and no-tilled it. We burned everything down that was growing up there and planted it without tilling any land on it or any ground. It was really ugly. I mean, it was about as bad as condition as you could want to go as far the way it looked. It was not pretty when we planted. There were a lot of local people. This is the first year we were down there. There were a lot of local people that thought we were crazy doing that.

But she had been a hedge fund manager for Goldman Sachs in New York. She ran a several billion dollar fund up there and it became quite wealthy on her own. She spent over a million dollars of her own money and developed the first agricultural REIT that was IRS approved. This is back 15 years ago.

[00:32:09] RA: Pioneering.

[00:32:10] WC: Yeah, pioneering. It was. After she got that thing approved, there were people coming to her and want to know how she did it and all these kind of stuff. She'd look at them and say, "I just spent a million bucks trying to figure out how to get this thing passed and you want me to tell you how to do it?"

[00:32:31] RA: Open source.

[00:32:31] WC: Oh, yeah. Aha! Yeah, that's going to work really well. Anyway, to try and get her some publicity for her fund, she got Lou Dobbs, she had known him in New York. She got him or she told him what she was doing and he sent a camera crew and a little lady down here, or down to Mississippi to film what we were doing. That was really interesting too, but there was quite a little documentary made out of that thing. But as we were planting, I know that anybody that was watching that thing and seeing what we were planting in just said, "They're getting ready to lose everything they got right there."

It was not a sure thing that this was going to turn out well, but it did. Two months later, everything that had been burned down was dead and on the ground, and soybeans had come in there. We planted on 30-inch rows, and I think we had one one planted that we planted on 15-inch rows. They had come in and had grown, shaded everything out and you never would have known what was out there. There were some weeds that were six or seven feet tall that we planted in and they were on the ground by this time. You couldn't see the tops or any of that. Those beans made really good beans that year, and everybody around there was really surprised and most of the spraying at that time and still is, is done by airplanes and the Delta. Fields are pretty good size or big, it's flat. Tree lines are pretty much gone now. The power lines are not quite as prevalent as they used to be. They pretty much run up and down roads. They don't run out to the middle fields.

But the egg pilot that we used his little airstrip was probably seven miles from this farm and he said as soon as he got about 300 feet off the ground, he could see that one particular block. It was a thousand acres, but it just stood out the way it had grown. Trying to do environmental things really helps.

This farm has since been developed into a farm where they have ponds. There was a pond built on it that you flood. It's about 25-acre pond. Look like catfish pond, but they would pump out that fund and irrigate the rest of the farm. So it was very interesting with that. We irrigated down the row. There have been a lot of things like that that have been done with farms, and she has done a lot trying to preserve that and has gotten probably a lot of money that wouldn't have otherwise come in to the egg industry with something like that.

[00:35:30] RA: Yeah, that's important. One thing that we definitely have run into that's similar is when we start talking to business owners about where they're at with getting out of the business. There's a variety of reasons for why they would get out of the business. We've come across this scenario where most the majority of them – As a matter of fact, there's a study last year in Nashville that suggested over 70% have no exit plan. They don't even have a plan on where to go or what to do next, and there's a lot of reasons for that. But I don't want to speak specifically to commercial farming or to family farming that way, but what your experience been with that?

[00:36:11] WC: My guess is it's probably higher than 70%. I would say 90% of the farming operations have no real exit plan, and it comes down to necessity on the end that it has to be sold, because there's either nobody that wants to carry on. It's not big enough to be sustainable on its own, or you've had a sudden death or something like that and there is nobody to carry it on.

But my guess is there's probably less than 10% or around 10% of the farming operations have some kind of exit plan, and it's –

[00:36:52] RA: More reactive as supposed to proactive.

[00:36:54] WC: Yeah.

[00:36:55] RA: Not strategic.

[00:36:55] WC: No, it's not strategic. It just when it happens. There needs to be –

[00:37:01] RA: Why do you think that is?

[00:37:02] WC: Because farming is a way of life and it's a place to raise your family, live. I won't say everybody, but there are a lot. Most families live on a farm or on a piece of their own farm. They raise their family there. They kids grow up raising animals and 4-H and FFA. It's just a way of life. It's a place to hunt, fish, recreate. That's just the way it is. It's more than a business, but it needs to be treated more like a business, and a business needs to have some kind of exit plan, because at some point it will either be too big for one person to handle, or it will not be big enough to make a living, one of the two. There needs to be some way to either exit or expand it, or one of those two things.

[00:37:54] RA: Are there advisors out there that actually coach in the area of operations?

[00:37:59] WC: Well, the extension service has probably as close to a public advisory board, or I won't say board, but people. They can help people. There are a lot of private foundations that I can name you one specifically, but I know of foundations that I have read about that will offer expertise and how to set up a transfer or a way to exit. They'll analyze your farm and operation and kind of let you know whether it's time or when it may be time and if they know that there's going to be a certain date you need to start thinking about how you're going to get out, and there are ways that you can make it as easy as you want to or as hard as you want to, as hard as it's going to be to get out. You can make it more profitable or lose money or whatever, however you want to look at it. It can be done in a good way or a bad way.

The worst thing I guess would be to just go completely broke and then have to have an auction site along the courthouse steps, that'd be the worst. Whereas if two years before that you started trying to plan, that I can see the handwriting on the wall that this is the a day out here that we're going to have to liquidate and you start planning for that day, it will be a whole lot more. I won't say it will be easy on your family or your nerves or whatever, but at least it will be a way to get out without complete devastation.

[00:39:40] RA: Yeah, like a runway in an airport. If you know where the end of it is, how much speed you need to get, velocity.

[00:39:48] WC: Yeah, that's right.

[00:39:49] RA: That's interesting, the nature of your business. You look at like how a business is valued based on – There's a variety of factors when we look at a company or business in terms of how to consider it in terms of listing it and who would potentially buy it. How the financing works? All of that stuff. It's exactly the same for what you're doing.

[00:40:12] WC: With the farming operation, you've got – And with a business, if you've got real estate involved with the business or buildings or whatever, you've got the value there, plus you got the business value or the income producing value of the business to look at. You may be able to say, "Well, for a little bit of this right here you could do this with it." You can't say, "I'm going to charge you or I expect to get this much out of it." But it may be a way to add just a little bit of psychological value to it to make it –

[00:40:50] RA: It still gets folded into the cost per acre.

[00:40:53] WC: Yeah, or whatever.

[00:40:53] RA: Yeah.

[00:40:54] WC: But with farms, I mean, you've got a lot of things to look at. You've got the housing part of it, if you want to say that, the buildings. Can they be renovated into something else? Then the land itself, it is going to have just base farmland value, because it will be worth this just to hold the world together. But if it has a history of production, are good production or bad production, either way, you can take a look at that and come up with some kind of value on it. You can soil test it, see what's out there. You cannot use the mining value out of it, the mineral value out of it and say, "Well, you've got this out here to look at." It takes so much to grow a crop, and with already this out here, it may not have to have the fertilizer that this place down the road or across the county may have.

[00:41:59] RA: Like stages of development.

[00:42:00] WC: Yeah. It's kind of that way too.

[00:42:04] RA: And equipment.

[00:42:05] WC: Equipment.

[00:42:05] RA: Tons of equipment.

[00:42:05] WC: Yeah.

[00:42:06] RA: Or it depends.

[00:42:07] WC: Yeah, you've got a lot of equipment and you've got that to look at as far as a value. You paid for all of that. You've probably used IRS for it, the depreciation on it. You got that to look at. In selling out, a lot of times, selling a property, you've also got the IRS to look at when you come to that part of it.

[00:42:31] RA: It's a big part of it, isn't it?

[00:42:32] WC: That's a big part of it. There are ways to get around that, but at least to be able to maybe put the IRS off a little bit with tax exchanges and 1031 tax exchange sales. There are some companies out there that can do some other type things.

[00:42:54] RA: Structure sales.

[00:42:55] WC: Structure sales to where you may not receive all of the income today, but you get it over a period of 8 to 10 years, something like that. So you put off the taxing value out there on it. So there's a lot of things it can be looked at there.

[00:43:12] RA: That's interesting. You and I have talked a lot about that and we can maybe do a separate conversation on that once we both get more up to speed on that. That's an interesting model for a lot of people.

[00:43:20] WC: It is. I think that probably overtime there will be more things come in for a long time. The only thing that was out there was 1031 tax exchange, but there are other models being developed now and other strategies that –

[00:43:36] RA: Those were regular business too.

[00:43:37] WC: Oh, yeah. They do.

[00:43:38] RA: Yeah.

[00:43:39] WC: Aha!

[00:43:39] RA: And there's other things you can do from a farming perspective that are more based on offset of like certain crops and things like that as well, or a commission for somebody's who's selling large ticket –

[00:43:51] WC: I saw a presentation from a firm that does these, and something that I had never heard of that they said that this family was selling a farm and they had the farm value and they also had a lot of crop or grain in storage in the farm. They were going to get hit with selling the farm, the value there – I can't think of the word. But anyway, what the value was going to be taxed on there, plus they were going to get hit by the value on the crop.

Well, this company had a way that they could come in and structure that grain sale and pay it out over about 10 years, 7 or 8, 10 years, something like that, which saved – I think they said that this particular sale right here, it was several million dollars and they were going to have about a $500,000 tax bill on it at the end and this company saved about $200,000, $300,000, which that's not a lot, but it is a lot too.

[00:44:53] RA: That's a lot, and it's good way from what I've read about this, where you can stage out payouts and keep them just under the tax level bracket tiers that would hammer you.

[00:45:05] WC: Yeah, that's right. I mean, it's just like anything else. If you plan ahead, you can usually figure out some way. I mean, big companies pay big fees to keep from having to pay a lot of taxes.

[00:45:20] RA: Yeah, strategy.

[00:45:21] WC: Strategy. That's right. There are ways that even a small farm can do it if you've got time, if you aren't force to sail the say and you've got, say, a year or two years to try and figure out how you're going to get out of this.

[00:45:35] RA: That's the hardest part, because even in just traditional business when we go to look at a business and you start to – They're literally being forced to sell for a variety of reasons and they run the gamut, but when you come back of what the actual value of the company or the businesses, sometimes they get offended because they spent so much time in the business and now they're up against the wall to sell the business and it's not as maximized as it could have been.

[00:46:05] WC: You've got 20, 25 years of somebody's life and this is all its worth?

[00:46:11] RA: Unfortunately. The tough part is time doesn't equal value when it comes to valuation. It just doesn't.

[00:46:17] WC: No.

[00:46:18] RA: The more you can be proactive in these things – One of the things that working with Walt, I'm hoping that when people hear this, for those people who are ready or thinking that way, obviously contact us. Get in touch. Figure out how to start that process, because it's not going to happen overnight.

[00:46:35] WC: No, it's not.

[00:46:36] RA: It takes time. From the time you have a – The very first time you have a conversation that you had understand the scope of what needs to be done, and it's different for everybody.

[00:46:45] WC: With a farm in operation, it's really specific. Now, if you're selling house in a subdivision, you've got this house and that house and that house down the street all look just alike –

[00:46:58] RA: You got comps.

[00:46:59] WC: You got comps. With this type of sale, you don't. You've got sales that you can look at for something like that. But with a farm, you've got a lot of different aspects that can be valued out on this farm. If you've got time to try and figure out how to market those, that's what you're looking for.

[00:47:20] RA: Or to develop them a little better.

[00:47:21] WC: Or develop them. Or develop them a little more. Yeah, however you want to do it.

[00:47:25] RA: One thing I was going to say, obviously, to start that process, it requires that first set of conversations. Let's talk a little bit about that. How can people reach out to you if they want to know more about this? What's the best way for people to contact you?

[00:47:39] WC: Here at United Country Hartland Real Estate & Auction. We've got people here in this office that their specialty is farms and auctions. That's a way to liquidate right there. You could get a whole need, specifically if you want to, but there's other people here in this office that –

[00:47:56] RA: You guys have different niche markets too inside of that, like you have row cropping, and then I think you have game farms. You do a bunch of different stuff.

[00:48:03] WC: Yeah. United Country itself is the largest lifestyle farmland and auction company nationwide. There is a specific real estate or residential company that kind of touts themselves as the largest residential in the United States. I work for them for a long time. But now with the largest land and farm type, or land and auction company nationwide. We have about 3,500 agents, I think, over the United States that kind of network together to be able to market stuff. There's a catalog put out every month or nationwide farms and lifestyle properties.

We've got 19 or 20 different specialties in United Country that they look at from land, farms, chicken farms. They get down real specific. Chicken farms, hunting properties, golf course properties. That's a whole different industry right there. You can take an old cow pasture that's a couple of hundred acres and develop it into a pretty good golf course. If you got, say, 300 acres, you can sell off around it, just like we were talking about selling off the frontage on a farm and sell the house. You can pay for the golf course selling off the lots and then charge the green fees and all that other stuff just to maintain it, and you got a business kind of put together right there.

[00:49:38] RA: Interesting.

[00:49:38] WC: United Country has got a specific category where we market those kind of properties specifically. In our office here, we've got row crop, we've got pasture land, we've got a couple of houses on golf course, stuff like that that could be marketed.

[00:50:01] RA: You cover a lot of area.

[00:50:02] WC: Yeah, a lot of area. I mean, we're licensed in Kentucky and Tennessee specifically. If we want to represent a buyer, we can kind of go about anywhere though.

[00:50:12] RA: Yeah, that's just to networks.

[00:50:13] WC: Yeah, networks allover. I mean, like I said, there's 3,500 agents in the United Country network and we all get emails and stuff like that, can send emails and advertise property inside the group that somebody in California may see something in Florida and decide that that's what they want to do. With the network, you can do it.

Like I said a little while ago, a way to maybe diversify your farm is to relocate part of it. I've got involved with this dairy deal that I was working with with a guy in Kansas who was looking to – He needed to diversify some of his. What he was doing, he ended up buying a feedlot in Texas and was growing heifers out in that feedlot and he was bringing them back. He had a 1,500 or a 3,000 cow dairy operation. So he needed a lot of replacements every year and he was not able to grow them out there, but he ended up buying a feedlot in Texas and feeding out down there and he will – He didn't bring back his own operation. He was selling his dairy efforts and they went all over the United States.

[00:51:36] RA: So like another separate division.

[00:51:38] WC: Yeah, a division. Yeah.

[00:51:40] RA: Interesting.

[00:51:41] WC: Yeah.

[00:51:41] RA: What I'll do is obviously I'll include all of Walt's contact information below if you want to have that conversation with him. Again, this is obviously a very specialized conversation in some aspects, but it's also really relevant in this part of the world where we're doing business every day.

[00:51:59] WC: Yeah.

[00:52:00] RA: So if you come across somebody who's in this situation and needs that kind of expertise, definitely reach out. Walt, I want to thank you for being a part of this today and agreeing to do this.

[00:52:10] WC: Glad to do it. Very interesting.

[00:52:12] RA: We'll do another one in the future. I'd like to cover the topic of post-transaction strategies once both of us get a little bit more up to speed on some of these other products we're talking about that seem interesting.

Excellent. Thank you very much.

[00:52:26] WC: Thank you.

[END OF INTERVIEW]

[00:52:31] RA: If you're in the market for a business or you'd like to see examples of the businesses that we have for sale, go to acmebizbrokers.com/listings. You can browse our featured as well as our standard listings and you can download the spec sheets on each business.

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