LAWSON AVERY LIMITED

A GUIDE TO EQUITY PARTNERSHIPS

Fact Sheet

Given the amount of capital tied up in farming businesses today, family ownership may not be the main model of ownership for farming businesses going forward.

There are various factors that come into play:

- Some owners want to plan for their own retirement while wanting to provide for the business to continue.
- Other owners want to grow their business and see that an investment in a larger property is necessary to move forward.

Equity partnerships are an option which can work well, particularly if you want to grow your business.

WHAT IS AN EQUITY PARTNERSHIP?

Individuals pool their capital with others in order to gain an ownership interest in a larger property.

Quite often there will also be a component of bank debt as the partners borrow funds to purchase the farm.

There are many success stories. We see evidence of a number of highly successful Equity Partnerships that are continuing to meet the needs of their investors.

LAWSON AVERY
CHARTERED ACCOUNTANTS

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WHAT ARE THE BENEFITS?

Equity partners:	It can be good a way for:
• pool their capital • share the risk • leverage specialist skills and/or capital assets • improve business performance with efficiencies of scale	• managers and sharemilkers to progress to farm ownership • farmers to retire but remain involved in the industry and see their business continuing with a sound succession plan in place

HOW WOULD YOU INITIATE ONE?

Often individuals who already know each other agree to set up an equity partnership.

Or you can be put in touch with other people who might be interested in this kind of investment opportunity.

HOW WOULD IT WORK?

The preferred ownership structure for an equity partnership is usually a Company or Limited Partnership.

A company has a number of shareholders, with shareholding based on the amount of share capital that individuals contribute to the partnership.

One shareholder generally takes the role of farm manager, on salary.

A Limited Partnership provides Limited Liability protection, whilst passing on the profits/losses to Partners directly for tax purposes. Other Possible options include a standard Partnership or a Trust.

Other possible structures include trusts and limited partnerships to establish the joint venture arrangements.

It's important to establish clear roles from the outset and work through the structuring options to establish what best suits your situation and what you want to achieve.

We can help you with this process.

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WHAT WOULD WE NEED?

A due diligence process is critical, to assess the potential risks and benefits.

If you decide that a company structure works best for your purpose, then all shareholders will sign a Shareholders' Agreement setting out how the venture will work.

If you decide on a different ownership structure, then there needs to be equivalent documents such as a Trust Deed or Partnership Agreement.

There also needs to be an Individual Employment Contract for the farm manager.

If you're trying to attract investors into a joint venture with you, it's a good idea to put together an Information Memorandum which makes it clear why your proposed venture stands out.

> "An Equity Partnership is typically a medium/long term investment like most farming ventures. You need to weigh up the risks and the benefits against your own personality and individual needs." *

KEY FACTORS TO SUCCESS

• Do not rush into an Equity Partnership • Seek advice from professionals • Understand the value proposition for the investment • Clearly identify and prioritise your needs as an investor • Carefully prepare an Information Memorandum	• Take care during due diligence • Take care choosing your fellow investors – their attributes are more important than the capital they provide • Agree on a Business Plan • Complete a Shareholders' Agreement, Partnership Agreement or similar prior to investment.

*ANZ Bank Equity Partnerships in Farming Booklet

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INFORMATION MEMORANDUM

How do you articulate to investors your proposition in such a way that will make them investigate yours further, before others?

Part of this process is putting together a good Information Memorandum (IM). This IM should cover a full but concise description of the property, business and management, clearly outlining strengths, weaknesses, opportunities and threats.

First impressions are important, so the IM should be carefully prepared and clearly identify the "Value Proposition" for the opportunity you want to promote.

The opportunity needs to be differentiated from others that may be competing for the same investment.

This differentiation may be around:

- The cost of the opportunity
- The cashflow predicted
- Potential for growth
- Location
- Management factor
- Scale
- Type of business
- Anything else that may provide a competitive advantage.

We can provide a copy you with an Information Memorandum form on request.
This will assist you in creating your draft proposal

OUR RECOMMENDATION

This information in this fact sheet is of a general nature. Contact us if you want to explore the possibility of an equity partnership further.

We can meet with you to analyse what would work best for you to achieve your goals, liaise with other specialists on your behalf and prepare the appropriate key documentation.

Please email info@lala.co.nz to initiate a discussion

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