A Look at the Impact of Financial Literacy Amongst Families When Contemplating Succession Planning.

Kellogg Rural Leadership Programme

Course 55 - 2026

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I wish to thank the Kellogg Programme Investing Partners for their continued support.

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2.0 Exec Summary

When we talk about succession planning and ask what that means, most people think about the emotional aspect of wanting to pass the farming business through to the next generation. They include the desire to have the family name kept on the gate post and how good that would feel. Often the financial aspect of that transition is overlooked until further down the journey and this turns into the elephant in the room when families talk about how the next generation will afford to buy the family business. Couple that with how the parents consider their obligation to being fair and equal to all their children and a complex situation can then start to become complicated.

One problem that faces families is the value of the assets that have been created by the parents over their lifetime, and the financial barriers to getting the next generation into ownership. The conversations need to start early to discuss how the succeeding children financially afford to buy the farm, have a debt loading that allows them to survive and thrive, while at the same time meet the parents financial needs to live the life they desire for their next 20 summers.

The question being raised in this report is how we lift the awareness of the need for financial literacy to be part of the everyday primary industry language. How do we get the industry to move from seeing accountants' roles as tax practitioners, bankers' roles as providers of capital and other rural professionals as only needing to be called in at the last minute.

The aim of this study is to explore how rural professionals perceive the financial dynamics within farming families. The report draws on insights from accountants, bankers, and succession planning facilitators, gathered through targeted survey questions. Emerging themes were further explored through discussions with three groups of agribusiness bankers to better understand where future changes in thinking may be required. Findings highlight a consistent view that the rural sector would benefit from a stronger understanding of business financials. This qualitative approach was coupled with quantitative financial modelling based on average efficient Key Performance Indications (KPI's) to represent what an average efficient farming or horticultural business could look like.

The financial modelling has been established using regional averages for physical attributes of the farms being described: Dairy farms in the Waikato and Canterbury, Sheep and Beef farms in the Waikato, and Kiwifruit orchards in the Bay of Plenty. These were modelled to show the Earnings Before Interest, Tax Drawings and Amortisation (EBITDA) of each business. The performance KPI's were obtained from published literature from industry experts like, Banks, Dairy NZ (DNZ), Beef + Lamb New Zealand (B+LNZ), Zespri, Ministry of Primary Industry (MPI) and Rural professionals.

The modelling then represents what level of debt loading each entity could maintain, with a focus on having surpluses strong enough to support the succeeding family to be able to survive and thrive, and then the impact of how the remaining equity in the farming business (often being required to be left in by the exiting generation) can be dealt with.

This highlighted the complexity of how families need to see the reality of the financial performance of the farming business. The greater the leveraging of the next generation to enter into the farm ownership journey, the harder it is to provide a profitable business that will allow them to meet the parent's potential income needs.

Recommendations

- Change How We See The Value of The Assets Owned by The 1st Generation.

The Primary industry needs to focus on financial literacy and help transition to looking at farming as a business that is profit driven rather than a business that has created wealth due to capital gains over time.

- Impact Within Families of How They See Entry/Exit Costs During Transition.

The emotional intent of some families at the start of their succession planning journey, when they say that Mum and Dads wishes need to be respected, and that keeping the family name on the gate post is the most important thing that the family wishes to hold. Meeting this intention requires a shift in thinking of what wealth means, and how the next generation may be treated in respect of inheritance value.

- Normalising The Financial Aspect of Farming Business at The Kitchen Table Early.

Accountants, bankers, and the succession facilitators all comment that the profitability of the farming business needs to be introduced into family discussions early.

- Training and Education.

The Stigma of having a lack of financial literacy needs to change.
Rural Industry needs to increase its purposeful conversations on this topic and promote programmes that are already available.

- The Role of Rural Professionals.

Bankers need to start having stronger guiding conversations with customers to promote education and learning.
Accountants need to start to sit alongside their clients and hold their hands more. Those that bring in industry KPI's and compare their client's businesses against others are helping clients understand their numbers to a greater degree than those accountants that don't do that.

- Promote and Use What Support is Already There.

  The Regional Business Partners network is excellent at providing funding towards development courses. There needs to be a stronger awareness of this support to rural businesses.

3.0 Acknowledgements

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To all the guest speakers, and industry leaders that we met along our journey. Thank you for giving us your time, your insights and your wisdom about what is happening all around us, not just what we see or hear that is in front of us.

To Cohort 55, what a great bunch of individuals that collectively have helped shape everyone on this programme. It was such a privilege to be amongst some genuine Rural Industry Leaders, both present day and for those that I see are just starting to make their mark as future leaders.

To my wife Leanne. The fact that you have an approach to life of continual learning, and are demonstrating that with your own learning journey, you are an inspiration. Thanks for the encouragement and helpful critiquing of my report.

To the Rural Professionals that answered my questions, gave me their insights, and helped formulate this report, the clients that have raised this topic through highlighting a common thread where some of the gaps are in our industry knowledge and SODA Inc, for providing funding through the Regional Business Partners' network.

4.0 Introduction

Having had a career in Agri Banking spanning 27 plus years, I reflect that it was a fulfilling career based on, from my point of view, what I think the core of banking was really about, being people and relationships. Unquestionably the provision of financial capital (or borrowing) to enable business growth or expansion was the tool, but as there were, during my time, five main Agri lending institutions, the main reason why customers would stay with their chosen institution was predominantly because of the relationships they had with the people they dealt with. I accept that competition amongst the banks was a factor of why customers would change allegiance, the offering of a lower interest rate to capture new business was often cited, and sometimes were pretty big inducements to change, but my core belief is that relationships were the main connection to an institution. If the relationship needs of a customer weren't being met, then they would seek those needs elsewhere.

> *You and your bank manager must be on the same page. You don't need to like your accountant, but you do need a good one and listen to him or her. Listen to Mum and Dad and Grandad and Grandma - you may want to do things differently, but listening must be one of your key attributes.* (Smash 2025, p. 14)

The banking service model changed over the years. I started my career in the late 80's at the tail end of Rogernomics, when there was an expectation that the farming client would provide the Banks with a budget and a cashflow in relation to their current business, or the new venture they wanted to pursue. In the mid 90's, the banks were providing their customers with this information. Principally it was marked as a process to meet bank need of supporting a financially viable business, but it was dressed up as a relationship tool, "We are good at doing this, so let us help you and provide the budget analysis for you". Why shouldn't bankers provide that service as an offering, after all this was part of our bread-and-butter activity, and we were doing cashflows, budgets, projections, risk assessment and modelling as part of everyday support.

My current observation is, banks have, as an unintended consequence, created a situation of a whole generation of farmers becoming dependant on the Banks or Accountants to provide them with the overall concept that things will work on paper at least. That many customers have lost, become uninterested or at least have a diminished ability, in the skill of financial literacy and acumen and why not? As humans we often follow the path of least resistance, so if someone else says they will take on the responsibility, why not let that happen? That observation may sound affronting, but it is exactly what I am experiencing in my current work environment, the area of financial acumen is somewhat lacking, and this is especially evident amongst the next generation. Therefore, this report is not about trying to apportion blame on banking institutions for their need to provide customer support, or saying the farming community had taken the easy road and are not applying the necessary financial knowledge to their business. It is more around having a look at what is the financial aspect of entering a family business so that the farming community can be aware of the reality of what is possible or required and what needs to be discussed and understood at a family level.

Whilst there are numerous excellent books and reports written by well-informed people around the topic of Succession Planning, some which are referenced in this report, a common theme is of the interpersonal relationships and difficulties that can arise within families and the need to start the conversations early. To not replicate or enlarge on those previous efforts, I am focusing on a singular aspect. I am wanting to centre in on one aspect of the Succession Planning journey that all families need to travel through; the ability of the farming business to afford succession. This will help support the exiting generation to be able to articulate amongst the non-farming siblings what is required to happen if keeping the family name on the gate post is the most important thing and is recognised as the families wish. In addition, it will raise an awareness to the succeeding generation, what is required to enter the family business, and for the non-succeeding children, a different perspective on what fair and equal may mean to allow the family wish to be realised. It will also have the capacity to promote to the exiting generation the need to begin strategic planning for their future, long before the need to act arrives.

Succession is a big topic with many authors exploring the emotional aspect of succession planning.

- The processes that need to be followed.
- The need of clarity and direction from both the parents and the next generation but mostly from the parents themselves, understanding what's important to them, what their needs are, and how they see their role in supporting (or not) the next generation.
- That without a common goal being understood, then a plan to achieve can't be set.

The concept of fair and equal is a difficult topic to navigate at the best of times. This is in part due to the impact of low or lacking financial acumen amongst the non-succeeding children. The main reflection from everyone I surveyed or interviewed is the elevated potential of unrealistic expectations. Another aspect is the angst or concerns from the next generation's succeeding children. This is whether their hard work is being recognised (or valued) or not. The potential of conflict or tension that could arise if the non-farming siblings don't see the increased value of the parents' assets, over recent times, could be as a result of the hard work and tenure of the farming sibling. The fear that their hard work could mean that they are making the asset actually get further away from their reach.

One question to explore is what does keeping the name on the gate post mean. In short, it means different things to different families. I have personally worked with families where being a 4th generation farmer is a sense of "pride" and the connection to the forefathers. Whilst the family next door, also 4th generation, can sometimes see it as a burden, with the sense of an obligation to continue to be a farmer, and the fear of none of their next generation wishing to take on the tradition. There is a perception of a sense of social stigma if they are the ones to sell the land outside of the family. Conversely, I have worked with families, where the farm is a business to create income, provide financial means to raise a family, and nothing more. It will be sold when the parents retire. Who it is sold to, is usually the purpose of the Succession Planning conversation.

I have worked with families who have successfully negotiated a sale/purchase through to a member of the family, (with no discounted consideration asked for or given) and yet the non-farming siblings are wanting to place restrictions on "unfettered access and domain" upon the sibling making the financial investment to help the elderly parents into retirement. This is whilst the family still get to keep the name on the gate post through the ability of one sibling only. I have worked with families, where the wealth created by the parents is significant, and where, the ability of the succeeding child to buy out the siblings "equally" is not a financially viable option, is often the case. This then leads to the inevitable elephant in the room, about how will the parents treat their children. The problem arises if they are conflicted about what is needed to keep the name on the gate post, treating the kids equally and being able to achieve both wishes. Hence the dilemma of defining what is fair and what is equal.

In addition to the families' desires and the process, timing is an issue. We all know that a long term planned approach to succession will provide a better outcome than when time is short (CMK Chartered Accountants, 2018). Often this can be as a result of crisis, whether that be health, illness or old age, bereavement, conflict or external pressure (e.g. financial). This is more relevant now when we look at the "cost of entry" and the need to provide time for the succeeding child to get financially stable before "inheritance" is the topic of conversation. Some valuable insights into how we need to start looking differently at Succession were captured by Michael Mack, Chair of the Succession Alliance after their 1st International Succession Symposium (The Succession Alliance, 2026). They mentioned in their report:

- *"When the conversation is framed as succession, families hesitate."* (p. 4)
- *"When it is framed as strategy, they engage."* (p. 4)

That distinction may sound subtle, but it has significant practical consequences. As language shapes behaviour, if the language feels heavy, final or threatening, people delay. If it feels constructive and forward-looking, they are far more likely to start early. Participants in The Succession Alliance (2026) forum had this to say:

- *"As soon as you say succession, people come out in hives." (p. 5)*
- *"Nobody argues with strategy. But plenty of people avoid succession." (p. 5)*
- "*Succession suggests an ending. Strategy suggests a future." (p. 7)*.

Those at the symposium also summarised this by saying *"Farmers are naturally oriented towards the future. Framing the work as long-term business strategy planning simply aligns the language with that instinct. If we change how we describe the problem, we make it easier to start solving it."* (The Succession Alliance, 2026).
Similarly, Lawrence Field in his recent NZ wide roadshow "Planning for Succession" sponsored by the Rabobank Client Council, has a quote in his workbook (Planning for Succession Workbook, 2026): "*The numbers will only let you do what the numbers will let you do*" (p. 12).

Those statements from facilitators and practitioners really resonate with my thinking, and why the thinking around this topic needs to start addressing the elephant in the room of what financial reality will allow to happen, versus what we want to happen. I have summarised the complexity of the financial literacy conundrum in family succession planning in Figure 1 below.

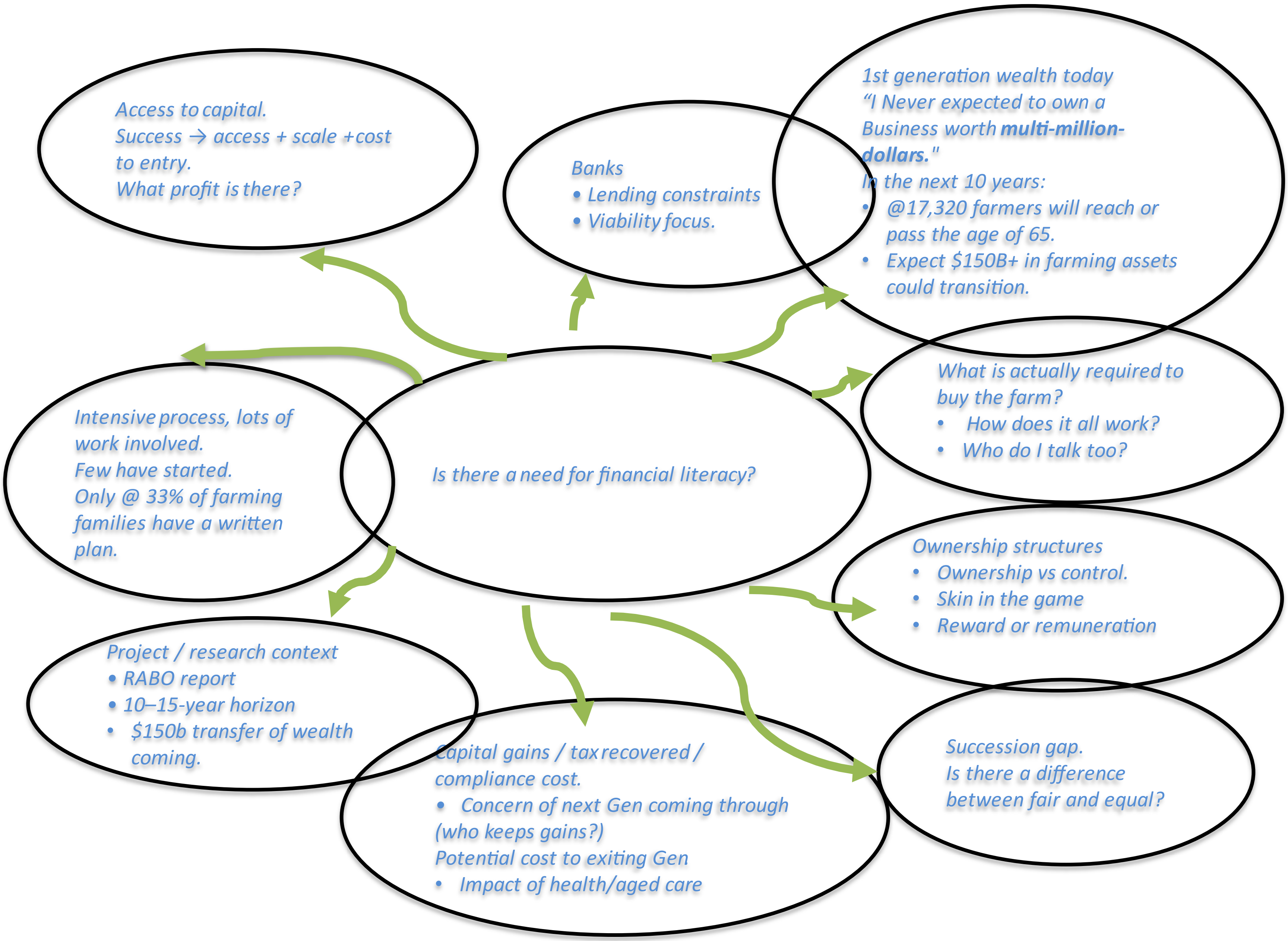


Figure 1. *Complexity of the financial literacy conundrum.*

5.0 Objectives of This Report

The overarching objective of this report is to explore the fundamental financial aspects of farming businesses, based on average efficient financial data. With the view of wanting to understand what the financial implications for the farming business could look like. Secondary objectives are:

- How does the profitability of the business change depending on scale?
- What could the business realistically service debt wise?
- What could be the realistic level of profit in a business?
- How will this data need to be acknowledged by the family when some of the most important aspects need to be considered. In particular:
    - How to look after the exiting generations needs for their "next 20 summers.?"
    - How much can the incoming generation contribute and then be able to survive and thrive?
    - What aspects do the non-succeeding family members need to understand?
    - How can this influence the fair and equal conversations?

6.0 Literature Review

There is a blurring in definition between financial acumen and financial literacy as these terms are often used together. One definition of financial acumen reads:

> *Financial acumen refers to the ability to understand and apply financial principles in a way that enhances decision-making and drives business success. It encompasses a range of skills including the ability to interpret financial statements, analyse financial data, and make informed decisions based on that analysis. Financial acumen is not just about numbers, it involves understanding the broader economic context in which a business operates and how financial decisions impact overall performance (BMC UK training Provider, Mastering the Bottom Line: A Guide to Financial Acumen 2026).*

Business acumen can be described as being based primarily on behavioural and experiential factors, not on formal learning or education such as financial literacy. (Perth Leadership Institute, 2026). Whereas Financial Literacy was described as referring to a broad understanding of what drives growth, profitability, and cash flow, along with knowledge of an organization's financial statements, key performance indicators, and how business decisions influence overall value creation (Lusardi & Mitchell, 2017). They also suggest that individuals with higher financial literacy, particularly knowledge of concepts such as compound interest, are better equipped to make financial decisions and are more likely to plan for retirement, whereas those with low financial literacy tend to make poorer financial choices.

When those definitions are applied to the context of farming businesses, and what I think should be present at the kitchen table, this becomes the ability to understand the long-term overarching strategic financial implications of short-term decisions being made on a daily basis. These are based on knowing your numbers and being up to date with cashflows and budgets. Its more than just doing the Goods and Services Tax (GST) return every other month. It must include understanding exactly where the business will land at year end with every decision made. Additionally, it requires the governors of the business to set a budget and cashflow projection for the coming year, and monitoring decisions made against the approved budget. The use of variance reporting to see where things are tracking at a line-by-line basis is also imperative.

When reviewing studies about how families could approach the aspect of profitability of the farming business, in particular how that would influence the ability to borrow funds from the bank and what may need to be provided by the exiting generation, the B+LNZ factsheet, Pathways to Farm Business Ownership is a great example. The Bowie family succession showed how it could work and touched on the sentiments of the family working together to agree on the succession plan. (B+LNZ, Factsheet: Road to succession, the Bowie Family, n.d.)

> *Additionally non-financial issues can be recognised as it is often as important to simply keep what you have. Generation after generation sees wealth dissipated by the same familiar causes. It is important these issues are recognised and dealt with, avoided, or mitigated. They include:*
> *1. Poor business decisions. Family members intending to run the farm have to be trained in business management. A basic ability to understand profitability is essential.*
> *2. Education and farm management practices becoming dated. On-going education is essential.*
> *3. Over-accumulation of debt. A farming business cannot thrive on a high debt/equity ratio.*
> (B+LNZ, Farm Ownership and transition, 2020, p 44).

On the Rural Coach Ltds website, it positions business viability as a foundational requirement for succession (Rural Coach Ltd, Succession planning 2026). This is one of their four principles when working with families. Noting that without viability, successful transition is unlikely. Another way of saying that is Succession Planning will not fix a lack of profitability and they advise to deal with this first. "It's important to align expectations with reality; for example, transitioning an unprofitable business forward to the next generation will not be feasible." (Rural Coach Succession Planning, 2022, p. 9). This in turn reinforces the insights and the barriers highlighted in this report below.

There have been a lot of studies written about possible structures of ownership and various pathways that people have followed to gain ownership. Merrilees (2021) wrote a great report and explores various ownership models and questioned why EBITDA wasn't used as a valuation of what a business is worth. This is a great question and one that will play a bigger role in the next 10-15 years as the wealth transfer begins to happen, and the realities of the economic drivers and abilities to service debt are offset with the family values that have been created, and how do we respond when the market has set such high Fair Sale values of land assets relative to the EBITDA of some businesses.

With a focus on financial accessibility and emerging ownership models, Cranefield (2025) also recognised the importance of profitability within the business as a driver for successful succession happening. She explored how the industry uses metrics to assess possible leveraging potential but also highlighted the implications of using some metrics over the profitability of a business. This supports the need for financial literacy within farming families to understand the financial performance of the business and then have this as part of the succession planning conversation.

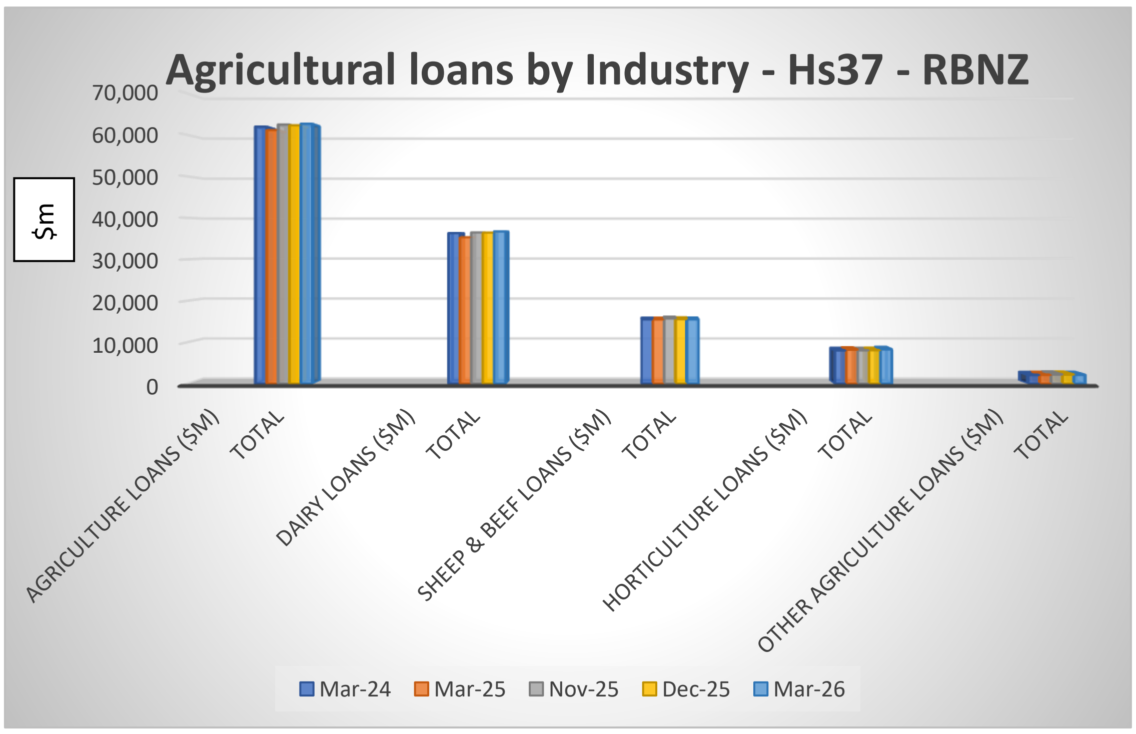
Cranefield (2025) suggested.

> *A more accurate measure of a farm businesses ability to weather commodity volatility and interest rate exposure is debt divided by Earnings Before Interest and Tax (EBIT) often referred to as the 'leverage ratio'. DEBT/EBIT captures the impact of cost control, productivity and farm management decisions. (p.14).*

Rabobank's Changing of the Guard whitepaper, (Rabobank PINZ White Paper, 2025) emphasised some sobering statistics. New Rabobank data (February 2025) shows that only one-third (33%) of farmers have a formal succession plan. However, over the next ten years, more than half of all New Zealand farm and orchard owners, around 17,320 farmers, will hit retirement age. Based on current average land values, this changing of the guard is likely to be New Zealand agriculture's largest-ever intergenerational transfer of wealth, directly involving a current land value conservatively estimated at more than $150 billion of farming assets that will depend on a successful succession process. (Rabobank PINZ White Paper, 2025).

I had a look at current debt held in the Primary sector, to get a feel for what debt is already being carried highlight that this also needs to be considered as part of the wealth transfer. The next generation may well have to accommodate this debt as well. (Reserve Bank of new Zealand, Hs37Banks: Assets – Agriculture loans by product (dec 2016-current)

Table 1. *Debt distribution amongst industry as a percentage of total industry debt over the last two years.*



Note: The total debt sits at $62,689 million (m) as at 31st March 2026. This is proportioned as follows; Dairy = $36,743 (m) (58.6%,), Sheep and Beef = $15,525 (m) (24.8 %), Horticulture = $8,295 (m) (13.2%) and other = $2,126(m) (3.4%).

Table 2. *Product type of loans as per reserve Bank statistics from 31/12/2016 to 31/03/2026.*

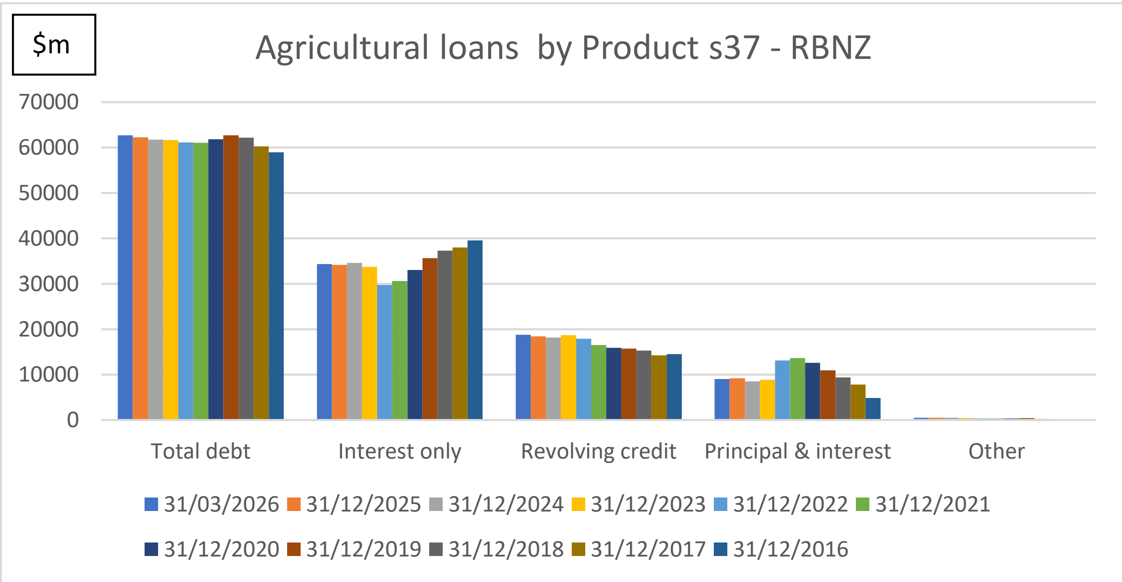


Table 2 drills a little deeper into how the debt is allocated over the last 10 years. The total debt in Agricultural loans has moved from $59,000(m) in Dec 2016, to $62,689(m) in March 2026, an increase of 6.2%. Also shown is the weighting between amortising loans, (those being paid off over via table loans), Interest only loans which are commonly used to reduce the cashflow impact of paying term debt off and that principal balance then sitting in the revolving credit facility, or overdraft. I note that the amount of debt sitting in Revolving credit facilities has increased on average by 29.5% from 31st December 2016 till 31st March 2026; dairy (18.6%), Sheep and Beef (20.1%) Horticulture (309%) and other (60.7%).

When reviewing the average balances held in these revolving credit accounts for each industry type, I notice that there is not a lot of movement overall of balances. Dairy had approximatley10% swings in balances as the year progresses and stronger net cashflows are evident from January/February through to the end of the season. Sheep and Beef balances were increasing until around March 2024 and have been on a general downwards trend since then. Horticulture balances by and large continually increased month on month from 2016 through to 2026. There was a positive downwards movement in June, July, August 2025 and then increased again. This movement was 9% reduction before climbing back up.

The question I have here is why is there so much debt being held in revolving credit facilities? These products are usually at a higher interest rate then term lending, and the banks are able to charge greater margins and fees attached to these facilities. Surely if this product was being sold to match peak positive cashflows and thus gain from a temporary reduction in total debt, we should see stronger balance movements throughout the year. Agricultural businesses need to have a focus on better management of cash surpluses to get the lowest cost of borrowing. When we examine Rabobank's prediction noted above, of $150 Billion NZD transfer of wealth, coupled with the existing debt of $62,689(m) this makes the reality of how to approach this subject imperative to be front of mind as New Zealand and our farming families find a way to tackle this. (Reserve Bank of New Zealand Banks: Assets – Agriculture loans by product (S37), 2026).

This report aims to highlight what is possible on an average efficient basis using EBITDA as a measure profitability, and what impact debt loading has when we include family wealth as part of the business transition pathway.

7.0 Method

I have approached this using qualitative and quantitative methods.

7.1 Qualitative Approach

A survey was sent out originally to six different audiences, with specific questions aligned to their part in the process of succession planning (Figure 1). In the end, I narrowed the responses to analyse down to three audiences. The three I discounted were 1st generation, 2nd generation and lawyers. I removed them as I felt the responses from actual families were introverted and only from their experiences within their own families. I considered those views to not be global in relation to the information I was seeking. The lawyers self-disqualified themselves, as no-one answered my request for participation.

Survey results were obtained from:

- Bankers (21)
- Accountants (6)
- Industry facilitators in the field of Succession Planning (7)

The survey questions were aimed to gather ideas and generate themes and understanding of how each professional body sees the opportunities and challenges in regard to the financial aspects of the Succession process. The questions were orientated to focus on each industry separately and explore their views from their involvement in the process, thus they were similar in nature, but were not the same. The results were reviewed with a holistic approach of determining what the individuals were collectively saying. The common ideas and comments were then interpreted into the findings section below.

SURVEY QUESTIONS

Rural Professionals –Bankers/Accountants

Bankers:

- What are your asking for from your clients when you are assessing a deal?
- From your point of view, how good are Farming Families at providing you with this information?
- What areas are they strong in?
- What areas are they not?
- What is your role when implementing Family transactions?
- What do you do when asked for advice on best structure?
- From your point of view, what do the next generation need to do?

Accountants:

- What are your observations when you talk to your farming clients about their financial understanding of their business?
- What are those clients mostly focused on?
- What should they be more focused on as business owners?
- When you compare Farmers with say Commercial business operators, are there any differences in how each party approaches financial understanding?
- How can the Accounting Profession help in this area?

Other Rural professionals

Succession Planning Facilitators:

- What are your observations when you talk to your clients about their financial acumen?
- How often do you see where financial understanding of the Farm business is understood by the next generation?
- If knowledge is high, what do you see happening regarding non-farming siblings?
- When knowledge is low – what do you see.?
- From your point of view, when should the financial discussion start within families?
- What should be talked about?
- What are some of the barriers that could prevent this from happening?

Figure 2. *A summary of the research questions*

After I had identified the key themes that were coming through, I conducted Informal interviews with three different Agri Banking teams based in the Waikato. These were based on a set of pre-determined questions, sourced from the themes in the surveys, with the intention of looking a little deeper at the perceptions of financial literacy held by the wider farming community. These questions were based on the Bankers Point of View.

Q1: Do you agree that with the older generations?

- Some know their stuff, some can and do budgets & cashflows and some don't?

Q2: Is it fair to say that these barriers that have been noted are accurate?

- That the older generation generally don't share their financial information, the middle generation don't ask, and the younger generation aren't trusted yet?

Q3: What have been the best structures that you have seen and what was so good about them?

Q4: What are your thoughts about what ownership of farming businesses will look like in the future?

7.2 Quantitative Approach

I identified relevant industry sources to enable me to create high level financial modelling for three different industries and look at the effect of scale in each of those. The data was sourced from industry websites where most information was published and available for public review. Some were internal data that were kindly shared with me for the purposes of conducting my research. Sources included were ANZ Bank New Zealand Ltd (ANZ), Rabobank, Westpac (WPC), Bank of New Zealand(BNZ) , Ministry of Primary Industries (MPI), Dairy NZ (DNZ), Beef & Lamb New Zealand (B+LNZ), South Island Dairy Demonstration Centre (SIDDC), Cooper Aitken Accountants, Zespri and Kiwi Fruit Industry Specialist. The data was used to establish an average efficient basis analysis to enable me to complete indicative financial budgeting models for the various farming enterprises that I have looked at. Performance measures used were per hectare, (per Ha), per effective hectare (eff Ha), per Kilogram of Milk Solids, (Kgms), per Stock Unit (SU) and per tray.

Modelling was completed as:

Dairy (See Tables 6 and 7)

- Average scale Waikato owner operated @ 130ha and milking 358 cows.
  - Production @ 1157 kilograms of milk solids per hectare (KgMS/ha)
  - Farm Working expenses @ $5.85/KgMS
- Average scale Canterbury owner operated @ 240ha and milking 842 cows.
  - Production @ 1557 KgMS/ha
  - Farm Working Expenses @ $5.55/KgMS
  -

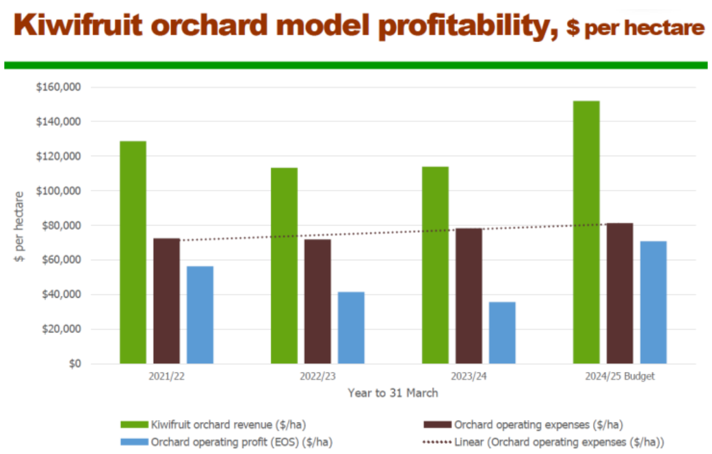
Sheep and Beef (All classes) (See Tables 10 and 11)

- Average scale Waikato/Northland owner operator @ 3,735SU
  - Production @ $134.30/SU
  - Farm Working Expenses @ $76.46/SU
- Med-large scale Waikato/Northland owner operator @ 9,700SU
  - Production @ $134.30/SU
  - Farm Working Expenses @ $76.46/SU
  -

Kiwifruit (see Tables 14 and 15)

- Average scale G3 orchard @ 3.5 canopy ha
  - Orchard production based on 18,000 Trays/ha @ $11.69
  - Orchard Expenses @ $71,460/Ha or $3.97/tray (including an allowance of $0.70/tray picking costs.)
- Med-large scale G3 orchard @ 10 canopy ha
  - Orchard production based on 18,000 Trays/ha @ $11.69
  - Orchard Expenses @ $71,460/Ha or $3.97/tray (including an allowance of $0.70/tray picking costs.)

Table 3 *MPI Kiwifruit orchard model March 2025 showing orchard revenue, operating expenses and operating profit per hectare.*



Note: (MPI Kiwifruit Monitoring Programme Orchard Model DATA 2021/22 to 2024/25Budget, available upon request to MPI, March 2025)

I recognise that on farm performance can vary greatly from farm to farm and these figures are only to be used as indicative for the purposes of this report. Due diligence for each farming enterprise needs to be completed to reflect the reality of the individual business.

Once the average efficient budgets were established, then this was overlayed with potential debt loading. My intention was to draw a connection between what the different farming enterprises could create as EBITDA and then an indicative debt loading was included.

This debt value was based on 2 limiting factors.

i) How much debt could each farming business carry that would allow a reasonable cash surplus for drawings, Capex, and depreciation.
ii) Bank security margins as if each situation was to be looked at as a stand-alone entity, and there was not an ability to leverage off other assets that could be owned by the family. Banking parameters used were a maximum LVR (Loan to value ratio) of 65% for Dairy and Sheep and Beef farms, and 50% for kiwifruit.

Land Value data was obtained from recent sales based on 2025-26 sales figures. This was used to indicate current values that are being experienced in the different regions, and to reflect the average values used in the following budgeting tables. It is not to be relied upon for assessing the value of all farms. (ANZ Sales Data)

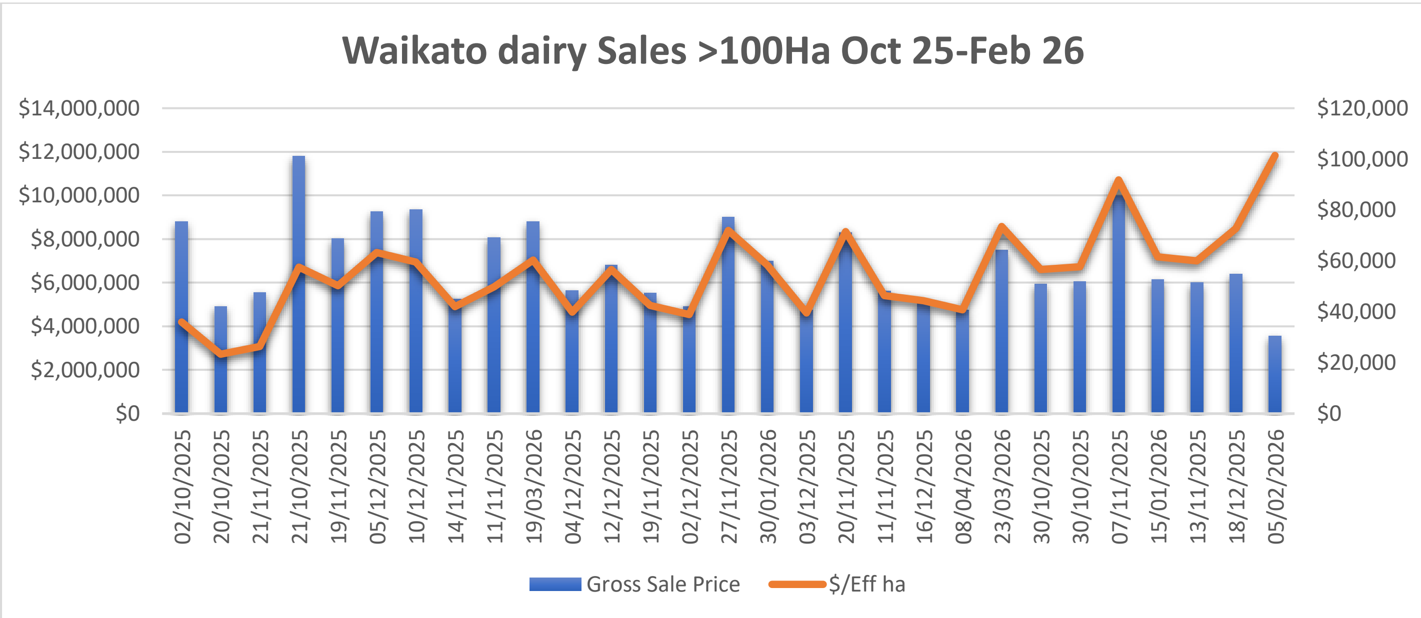


Figure 3. *Waikato dairy farm sales, greater than 100Ha to show relevance to model farm used of 135Ha.*

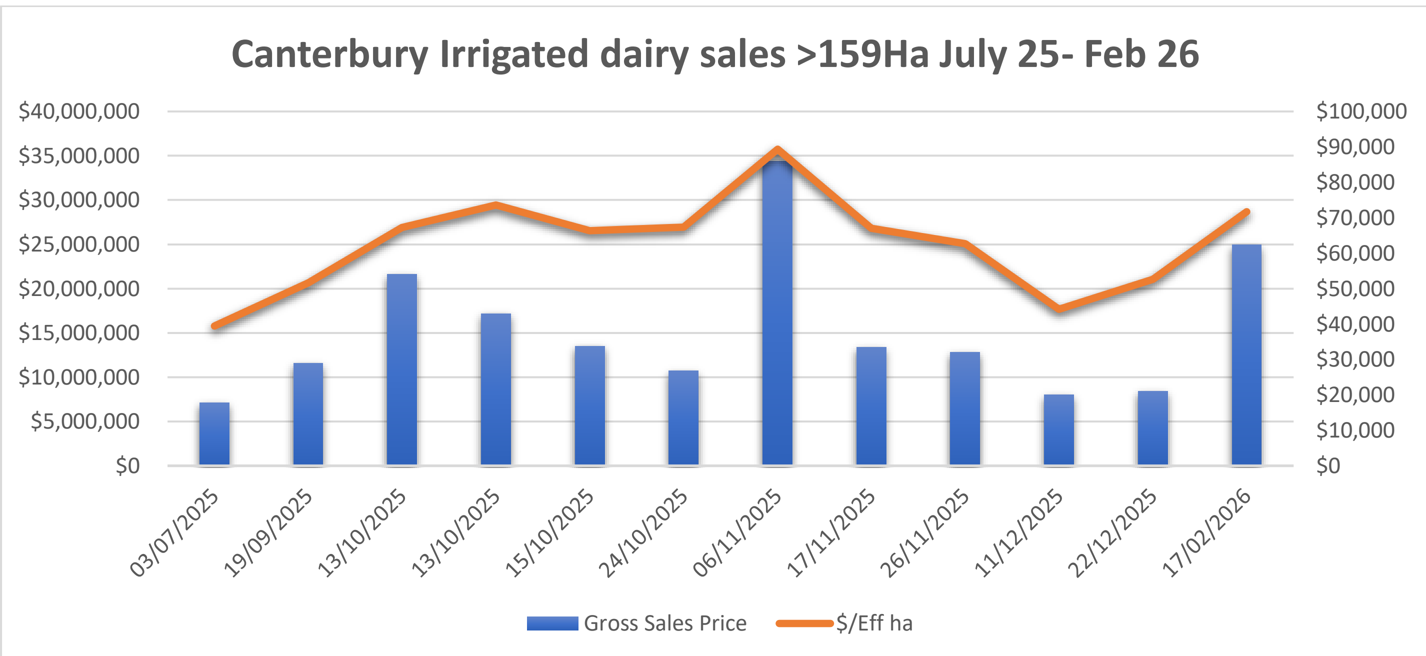


Figure 4. *Canterbury Irrigated dairy farm sales, greater than 159Ha to show relevance to model farm used of 240Ha.*

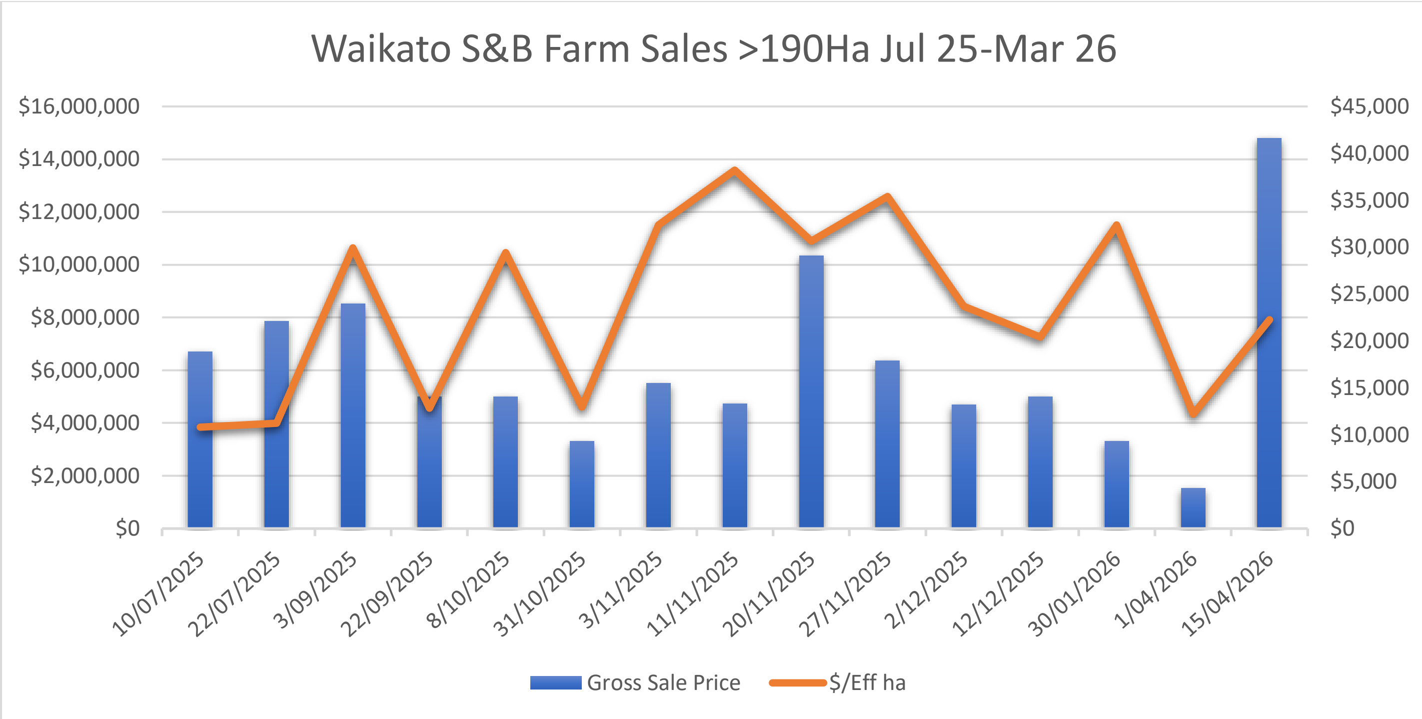


Figure 5. *Waikato Sheep and Beef farm sales, greater than 190Ha to show relevance to model farm used of 385Ha.*

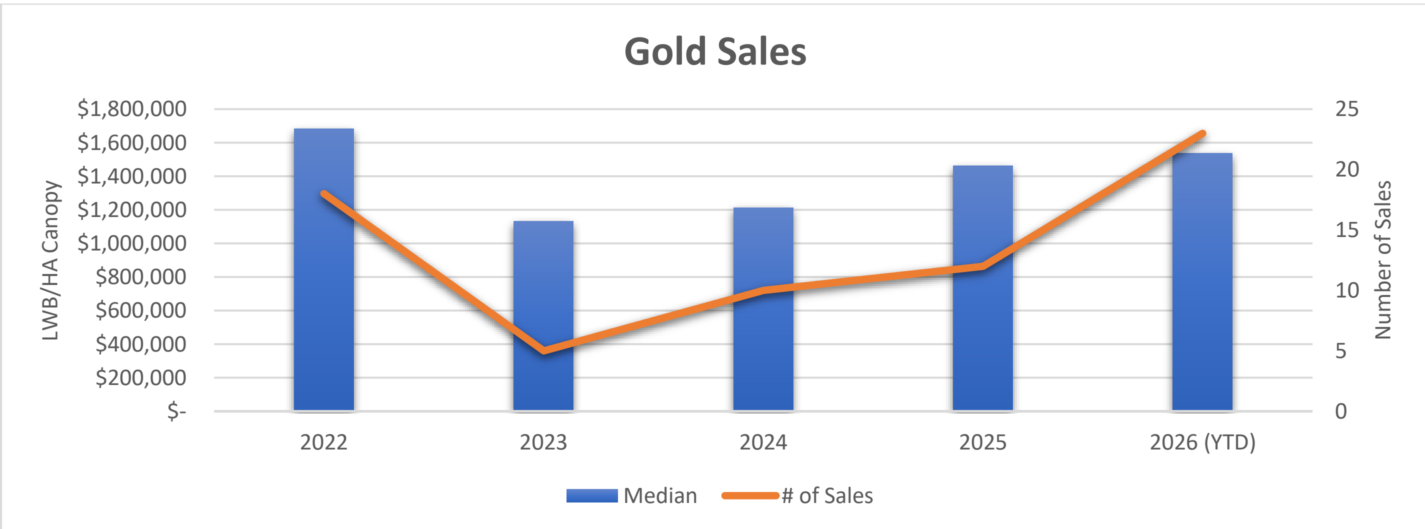


Figure 6. *Bay of Plenty G3 Kiwifruit Orchard Sales, Median Price per Hectare.*

Note: LWB/ha (land without buildings) canopy ha excludes assessment of 2026 crop value, other land (plantable, non-effective) and residential site value. G3 Licence valued at $560,000/ha is included. Median Land Without Buildings/ha Canopy has lifted from $1,536,000 (23 sales Year to Date)to $1,592,000 from 13 sales since January.

A summary of the data (Figures 3-6) used is shown below in Table 4. Averages used have been obtained from a representative data set that reflected more closely with the budgets that I have used below (Tables 6 to 16). Thus, these figures will be slightly different to the graphs above, as they are based on the full data set.

Table 4. *Average Sales Data at a Regional Basis*

Average efficient data for valuations used	Region	Scale used	Avg Sale Price	Avg Eff Ha	Kgms	$/Eff ha	Avg $/Kgms
	Waikato	Average 100 - 245ha	$ 6,994,259	138	125,519	$ 52,612	$ 56.93
	Canterrbury	Avergaes 167-385Ha	$ 15,300,017	233	357,333	$ 62,773	$ 41.00
	Region	Scale used	Avg Sale Price	Avg Eff Ha	SU	$/Eff ha	Avg $ / SU
	Waikato S&B	avg 285-700 Ha	$ 5,449,333	385	3649	$ 13,327	$ 1,308
	Region	Scale used - Canopy h	Avg Sale Price	Avg Eff Ha	Production	$/Eff ha	Avg $ tray
	BOP	1.15 - 8.63 Ha	$ 5,325,770	3.43		$ 1,527,080	

Note. Avg = average, Eff = effective, KgMS = Kilograms milk solids, ha = Hectare, SU = Stock unit

Table 4 represents average data analysis based on actual Sale Price and Area/Production being obtained.

- Local farm sales were averaged to obtain the average sale price.
- Actual effective area and production gained used to determine average /effective ha and average/production unit.
- Bank parameters were used (in tables below) to ascertain LVR (Loan to Value Ratio) to check that the model above would be within normal banking guidelines, subject to usual Due diligence and credit approval.

8.0 Analysis

Based on averages from multiple sources for financial data analysis, (ANZ, DNZ Econ Tracker, Cooper Aitken) I have developed these simple tables (tables 6-16 below) as a tool to have a very quick, helicopter view of what a business could look like on a cash/profit basis. I realise that there are other influencing factors that will alter the budgets above, but that is where the Family conversations will highlight where each business is different and unique. My analysis is based on the results that they have shown merely as a point to start a conversation within this narrow aspect of succession planning. There are many other facets of a Family Plan that need to be considered alongside each other, (visit Rural Coach Limited who have created an 11 point list of Components of a Succession plan) but as this is one of the many elephants in the room that those that have a poor understanding about, could easily make assumptions, draw their own conclusions and therefore, when the reality is different, tensions could arise.

8.1 Summary of KPIs

Average values shown in Table 5, are presented for the selected region and ownership type, (being owner occupied) providing a representative snapshot of farm performance.

Table 5. *Regional Averages for Scale, Herd Size and Production.*

	Region	District	Avg Kgms	Avg herd	Avg Eff ha	Production/Ha	cows/ha	Avg GFI /KgMs	FWE/KgMS
DNZ Statistics 24/25 Table 3.3: Herd analysis by district in 2024/25	Waikato	Waikato	141,650	358	130	1135	2.75		N/A
Cooper Aitken 24/25	Waikato		120,121	323	115	1044	2.8		5.27
DNZ Econ tracker	Waikato		143,713	376	133	1085	2.82		5.8
DNZ Statistics 24/25 Table 3.3: Herd analysis by district in 2024/25	North Canterbury	Ashburton	370,785	796	235	1557	3.39		N/A
DNZ Econ tracker	Canterbury		354,418	800	236	1496	3.38		5.41
SIDDC 24/25	Canterbury		257,815	560	160	1611	3.5		5.56
	Region	District	Avg SU		Eff ha	Lmb/Calving %	Avg SU/ha	Avg GFI/SU	FWE/SU
Beef and Lamb NZ Northern North Islar	Northern NI all classes		3596		398	131% / 80%	8	134	75
	Region	District	Avg Production		Eff ha	Trays/Ha	Avg OGR/tray	Avg Costs/Ha	Avg Costs/tray
MPI	BOP	BOP	43200		3	14400	11.3	65553	4.66
Industry Specialist	BOP	BOP	54000		3	18000		67156	3.73

Note. Avg Kgms = Average Kilograms Milk solids, Avg herd = average herd, Avg Eff Ha = average effective hectare, Avg GFI/SU = average gross farm income per stock unit, Avg Costs/tray = average costs per tray

Tables 6 – 16 below depict the two differing scales used in each industry as described above (see section 7.2 Quantitative approach). The focus was to establish EBITDA as a measure of performance, and then over lay possible debt to show what could be considered a maximum debt loading (think Bank debt) with each business model. The limiting factors that were taken into consideration were:

- Net profit: how much was available for Drawings/Depreciation/Capex costs. Aimed at having a reasonable living standard.
- LVR: to meet maximum lending exposure parameters.
    - Dairy and Sheep & beef properties can leverage up to 65% LVR if the viability supports.
    - Kiwi Fruit industry @ 50% LVR. This was split evenly between LWB value and Licence value.

What was identified when taking these factors into consideration is the amount of equity that is required over and above what I have indicated as being the maximum debt loading for each entity. This is noted in each scenario in the amortisation tables.

Table 6. *Average Efficient Budget For A 130 Ha Waikato Dairy Farm*

	Average efficient Budget - Waikato farm					Hectares							
						130			Avg Kgms/ha	KgMS	$/KgMS		
Farm Working Expences							Income						
							Production		1,135	147,550	9.00		1,327,950
Production	$/KgMS	/Ha											
147,550	5.85	6,640			863,168		Stock sales			147,550	0.70		103,285
EBITDA					568,068								
Less Principal & Interest Cost - 30 year term													
Average debt /KgMS		debt	%										
Waikato	30	4,426,500	7.5%		371,409								
Tax					59,020								
Net Profit: Available for					137,639				Gross Income				1,431,235
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Note. Equity Req'd = equity required, $/Kgms = dollars per kilogram milk solids, Avg Kgms/ha = average kilograms Milk solids per hectare.

Table 7. *Average Efficient Budget For A 240Ha Canterbury Dairy Farm*

	Average efficient Budget - Canterbury Farm					Hectares							
						240			Avg Kgms/ha	KgMS	$/KgMS		
Farm Working Expences							Income						
							Production		1,577	378,480	9.00		3,406,320
Productio	$/KgMS	/Ha											
378,480	5.55	8,752			2,100,564		Stock sales			378,480	0.70		264,936
EBITDA					1,570,692								
Less Principal & Interest Cost - 30 year term													
Average debt /KgMS		debt	%										
Canterbur	31	11,732,880	7.50%		984,456								
Tax					172,682								
Net Profit: Available for					413,555				Gross Income				3,671,256
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Note. Equity Req'd = equity required, $/Kgms = dollars per kilogram milk solids, Avg Kgms/ha = average kilograms milk solids per hectare

Table 8. *Debt Loading, Amortisation Calculations, Equity Required And Loan To Value Ratio.*

		Avg farm size		$/ha	Farm FSV	Livestock	Total Asset value		Avg Debt	Equity req'd	LVR
Waikato		130		52612	6839560	945120	7784680		4,426,500	3,358,180	57%
Canterbury		240		62773	15065520	2222880	17288400		11,732,880	5,555,520	68%
Loan amount				4,426,500	Loan amount				11,732,880		
Interest rate		7.5%	12	0.00625	Interest rate		7.5%	12	0.00625		
term				360	term				360		
FV				0	FV				0		
mnthly payment.				-30951	mnthly payment.				-82038		
Annual Payment				-371409	Annual Payment				-984456		

Note. equity req'd = equity required, FV = future value, LVR = Loan to Value Tatio

Table 9. *Stock Reconciliation Table for a typical dairy farm with 20% replacement policy to calculate Current Bank Valuations for security purposes.*

Stock Reconcilliation								
Waikato		Avg Security Value			Canterbury		Avg Security Value	
MA Cows	286	2500	716000		MA Cows	674	2500	1684000
IC Hfrs	72	2000	143200		IC Hfrs	168	2000	336800
Total	358				Total	842		
R1 Reps	72	1200	85920		R1 Reps	168	1200	202080
Total Value livestock			945120		Total Value livestock			2222880

Note. IC Hfrs = in Calf Heifers. R1 Reps = Rising 1 replacement heifers. Avg security value = average security value

Table 10. *Average efficient budget For A 385Ha Waikato Sheep and Beef Farm*

	Average efficient Budget - Waikato S&B farm				Eff Hectares							
					385			Avg SU/Ha	SU	$/SU		
Farm Working Expences						Income						
						Production		9.7	3,735	134.00		500,423
Production	$/SU	/Ha										
3,735	75.00	728		280,088								
EBITDA				220,336								
Less Principal & Interest Cost - 30 year term												
Average debt /SU	debt	%										
Waikato	300	1,120,350	7.5%	94,004								
Tax				34,077								
Net Profit: Available for				92,254				Gross Income				500,423
Drawings - Off Farm investments/kids education												
Depreciation												
Capex/Development												

Note. Avg $/SU = average dollars per stock unit, SU = stock unit, /Ha = per hectare,

Table 11. *Average Efficient Budget For A 1000Ha Waikato Sheep and Beef Farm*

	Average efficient Budget - Waikato S&B farm				Eff Hectares							
					1000			Avg SU/Ha	SU	$/SU		
Farm Working Expences						Income						
						Production		9.7	9,700	134.00		1,299,800
Productio	$/SU	/Ha										
9,700	75.00	728		727,500								
EBITDA				572,300								
Less Principal & Interest Cost - 30 year term												
Average debt /SU	debt	%										
Waikato	500	4,850,000	7.5%	406,943								
Tax				52,138								
Net Profit: Available for				113,220				Gross Income				1,299,800
Drawings - Off Farm investments/kids education												
Depreciation												
Capex/Development												

Note. Avg $/SU = average dollars per stock unit, SU = stock unit, /Ha = per hectare,

Table 12. *Debt Loading, Amortisation Calculations, Equity Required And Loan To Value Ratio.*

		Avg farm size		$/ha		Farm FSV	Livestock	Total Asset value		Avg Debt	Equity Req'd	LVR
Waikato		385		$ 13,000		$ 5,005,000	$ 929,390	$ 5,934,390		$1,120,350	$ 4,814,040	19%
Waikato		1000		$ 13,000		$ 13,000,000	$ 2,485,000	$15,485,000		$4,850,000	$ 10,635,000	31%
Loan amount				1,120,350		Loan amount				4,850,000		
Interest rate		7.5%	12	0.00625		Interest rate		7.5%	12	0.00625		
term				360		term				360		
FV				0		FV				0		
mnthly payment.				-$7,833.65		mnthly payment.				-$33,911.90		
Annual Payment				-94003.797		Annual Payment				-406942.844		

Table 13. *Stock Reconciliation Table For A Typical Sheep and Beef Farm. Values used were based on average stock unit across all classes to obtain simple calculation figures. This was then used to calculate Current Bank Valuations For Security Purposes.*

Waikato	SU	Avg Security value			Larger SU			
Sheep	1870	206	385220		sheep	5000	206	1030000
Cattle	1870	291	544170		Cattle	5000	291	1455000
	3740					10000		
			0					0
Total Value livestock			929390		Total Value livestock			2485000

Table 14. *Average efficient budget for a 3.5Ha Gold Kiwifruit Orchard in Bay of Plenty*

	Average efficient Budget - BOP - Gold K/Fruit					Eff Hectares							
						3.5			Avg Trays/ha	Tot Trays	$/tray		
Farm Working Expences							Income						
							Production		18,000	63,000	11.69		736,470
trays/ha	Costs/Tray	Costs/Ha											
18,000	3.75	67,500			236,250								
EBITDA					500,220								
Less Principal & Interest Cost - 30 year term													
Average debt /ha		debt	%										
BOP	483,500	1,692,250	7.5%		141,989								
Licence repaid by 2039 (13 yrs)													
G3	280,000	980,000	7.5%		118,232								
Tax					74,950								
Net Profit: Available for					165,049				Gross Income				736,470
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Note. Avg trays/ha = average trays per hectare, $/tray = $ per tray.

Table 15. *Average Efficient Budget For A 10.0Ha Gold Kiwifruit Orchard In Bay Of Plenty*

	Average efficient Budget - BOP - Gold K/Fruit					Eff Hectares							
						10			Avg Trays/ha	Tot trays	$/tray		
Farm Working Expences							Income						
							Production		18,000	180,000	11.69		2,104,200
Trays/ha	/Tray	/Ha											
18,000	3.75	67,500			675,000								
EBITDA					1,429,200								
Less Principal & Interest Cost - 30 year term													
Average debt /ha		debt	%										
BOP	483,500	4,835,000	7.5%		405,684								
Licence repaid by 2039 (13 yrs)													
G3	280,000	2,800,000	7.5%		337,804								
Tax					214,144								
Net Profit: Available for					471,568				Gross Income				2,104,200
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Note. Avg trays/ha = average trays per hectare, $/tray = $ per tray.

Table 16. *Debt Loading, Amortisation Calculations, Equity Required And Loan To Value Ratio.*

		Avg Orchard size		$/ha		Orchard FSV		Total Asset value		Avg Debt	Equity req'd	LVR
BOP		3.5		1527080		5344780	0	5344780		2,672,250	2,672,530	50%
BOP		10		1527080		15270800	0	15270800		7,635,000	7,635,800	50%
Loan amount Land Can ha				1,692,250		Loan amount				4,835,000		
Interest rate		7.5%	12	0.00625		Interest rate		7.5%	12	0.00625		
term				360		term				360		
FV				0		FV				0		
mnthly payment.				-11832		mnthly payment.				-33807		
Annual Payment				-141989		Annual Payment				-405684		
		Avg Orchard size		$/ha		Orchard FSV		Total Asset value		Avg Debt		
BOP		3.5		560000		1960000	0	1960000		0		
Canterbury		10		560000		5600000	0	5600000		0		
Loan amount Zesprie Shares.				980,000		Loan amount				2,800,000		
Interest rate		7.5%	12	0.00625		Interest rate		7.5%	12	0.00625		
term				156		term				156		
FV				0		FV				0		
mnthly payment.				-9853		mnthly payment.				-28150		
Annual Payment				-118232		Annual Payment				-337804		

9.0 Findings from Survey

As you read these descriptors, I have grouped the family members that the themes relate to as follows:

- 1st Generation refers to the exiting generation. Typically, 60-65+ years of age.
- 2nd Generation refers to 2 groups,
    - the older group being 35-45 years of age.
    - and the younger group being 25-35 years of age.

The first thing that I noticed was the framework, or the "eye" that the different sets of professionals see this topic from. While each group engages with families at different points in the succession journey, the findings reveal a strong alignment around the underlying causes of both successful and unsuccessful succession outcomes.

9.1 Professionals Responses

The Bankers - saw themselves as the risk assessors and the financial intermediaries between the family generations and the other rural professionals.

They consistently viewed succession transactions through the lens of future viability, emphasising the need for clear intent of why the transaction was happening. A focus on the need for financial discipline, and capability development. A frequent comment was that "farming families are operationally strong but are often underprepared financially and strategically".

The Accountant's - saw themselves as performance analysts, past and future.

Accountants observed that while farming clients often have strong operational awareness, their financial understanding is frequently fragmented and short-term in nature. A predominant focus on tax, asset ownership, and immediate issues overrides deeper consideration of profitability, return on capital, and long-term balance-sheet strength. This lack of forward strategic thinking and planning can make it hard to deal with current situations without incurring costs that could have been addressed and potentially mitigated or reduced if future planning was done earlier. When compared with their commercial operators, they said that farmers are less consistent in budgeting and forward planning. They see their role as moving towards ongoing education, simplicity, and repeated engagement as the most effective means of lifting financial capability.

The Succession Planning Facilitators (SPF) - saw themselves as coaches, experts in asking the deeper questions.

SPFs were the forebearers of reality when discussing what families want to happen and what may be able to happen. Succession planning facilitators consistently observed that financial capability and understanding across farming families vary widely and are often constrained by limited transparency. Decision making can rely on intuition rather than informed knowledge. Early and open financial conversations are rare, yet where they do occur, they can reduce conflict, support fair outcomes for non-farming siblings, and improve readiness for transition. The most significant barriers to these conversations are emotional — fear, control, and avoidance — rather than technical complexity.

Some of the emotional barriers that are present are attributed to the feelings of the 1st generation. These can be:

- *a feeling of loss of control if they let the next generation start to make decisions. (Q41, SPF1)*
- *A feeling that they will be judged if financial performance of the farming business hasn't been that strong. (Q41, SPF 3)*

A response that was aligned between all 3 professional's was in regard to when the discussion of Succession planning actually started. (as opposed to when it should start).

Bankers – Commented that conversations often start when a transaction is imminent.

> *Recent example is a 50:50 SM couple on the family farm purchasing a property as a long-term investment. Parents telling me they should have put funds into purchasing the run-off. There was an obvious disconnect as the children told me the parents were not ready to sell anything. Unfortunately, I came into relationship managing both connections when the children's house purchase was too far advanced to pivot to the runoff option. (Q22, Banker #6)*

Accountants – conversations started too late and the ability for forward looking strategy is limited. Conversations are usually skewed towards tax and compliance.

> *With time, we can educate on wealth creation, maximising returns, minimising tax, entity structures to enable outcomes that are fit for purpose, estate or succession discussions, planning and implementation, cash management and debt repayment (Q29, Accountant #4)*

SPF – Often these conversations start after a trigger event and families underestimate how long effective conversations take with this process.

> *Early and ongoing around the table, but more specifically when they are young adults in their twenties, it may not mean much at the time, but it will lay the foundation for discussions that will be required later. (Q39, SPF #4)*

It was noted that, across all three professional perspectives, some succession challenges are observed to arise not primarily from technical or structural complexity, but from delayed financial conversations. These often resulted in limited shared understanding between the generations, and there was often cited a big gap between the farming and the non-farming siblings' understandings of the business.

> *To varying degrees. Often the non-farming children have a very limited understanding of the farm business. The farming children's knowledge depends to a great degree how much exposure has been curated by the retiring generation, and the extent to which they've sought knowledge or developed their own business interests, or developed within the business (i.e., lease) (Q36, SPF#7)*

These comments reinforced my view that there is a presence of weak financial literacy within farming families. In contrast, operational competence is consistently noted as strong. Most farmers are good at what they do, they have a passion for the lifestyle they have chosen, and they work damn hard. Farming families are consistently described as highly capable in operational and physical aspects of the business. Strong knowledge of production systems, land, livestock, and day-to-day management are evident. However, this operational strength often masks weaknesses in financial forecasting, budgeting, governance, and long-term planning.

Good, or effective, communication, to enter into the space of openly discussing the operational profitability of the farming business, is another aspect of succession planning that can be seen as a barrier between the generations. This is a topic (effective communication) that deserves a looking in to, but not in this report.

Bankers highlight there is a limited capability in presenting accurate cashflow projections and understanding the implications of ownership and structural change. This is across both the 1st generation Family and the 2nd generation coming through and when asked about this in my group interviews, the responses also reflected my view that the financial landscape and behaviours over the past 30+ years have created a pathway of less resistance, and a reliance from outside the kitchen table to provide these insights. Whereas Accountants note that there is frequent confusion between income, profit, and cashflow, as well as a lack of understanding of concepts such as return on equity and return on investment and wealth.

> *Clients, as a general rule, have a poor understanding of their position. Often, they know equity in terms of total "worth" but don't understand how that converts into a ROE or ROI for the asset base. Generally limited knowledge of how that could compare to an off-farm investment. (Q25, Accountant #1)*

9.2 Financial Measures

Lawrence Field (Rural Field Consultants Ltd) has spent time over the past six years completing nationwide workshops in partnership with Rabobank Client Councils initiative, bringing financial knowledge to the primary sector (Rabobank, 2026). He has been commenting that there are some simple principles that should be understood by all farming families. I have put these concepts into figures 7-9 below:

Times Interest Covered

$$\frac{\text{EBIT}}{\text{Interest}}$$

Figure 7. *Times Interest Covered calculation.*

Understand this KPI and you can then understand what it is that the Banks are looking for when backing a decision to invest funds, or how profitable the business is. The stronger this KPI could relate back to lower interest rates being charged for the business, the ability to borrow additional funds for growth, or the ability to use profits towards development, off farm investment or debt repayment.

Return on Equity

$$\frac{\text{Total operating profit - Interest}}{\text{Shareholders' Equity}} \times 100$$

Figure 8. *Return on Equity calculation.*

Return on Equity (ROE) measures how efficiently the owner's equity is being utilised. This KPI looks at the operating profit less interest costs as a percentage of the equity invested and is closely related to equity growth/wealth creation over time.

Return on Assets.

$$\frac{\text{Net Farm Income}}{\text{Average Total Assets}} \times 100$$

Figure 9. *Return on Assets calculation.*

Return on Assets (ROA) measures how effectively your entire farm converts its physical and financial assets (land, livestock, machinery) into profit, or it measures how efficiently the farm assets are being utilised. This KPI is the next step beyond just looking at operating profit alone. It takes into account both profitability and the value of the assets used to generate that profit. (Dairy NZ, 2025)

9.3 Profit and Loss Versus Equity

These two fundamental financial aspects of the business, although often talked about in the same breath, I think are separate from each other. Profit and loss talks about what has happened over the year that has been (i.e. for the year ending 31st May 2026). Equity or wealth is recorded in the balance sheet and is focused on a specific date in time. (i.e. as at 31st May 2026). It has to be said, that although the above themes are painting a pretty average picture as to the current financial literacy being observed, it should be noted that during the informal group meetings, the general consensus was that a lot of the observations are directed at the 2nd generation age demographic of the 35–45-year age group.

What is being noticed is that the younger age group of 2nd generation farmers (the 25–35-year age group) are consistently being observed as more highly educated, and more aware of the financial aspect of the business. This group are being driven by numbers/ratios/ROE/technology etc as opposed to the older 2nd generation group that are more influenced by their parents' theory of acting "on gut" and relying on Capital gains over time.

9.4 When Does Lack of Financial Literacy Become an Issue During Succession Planning?

This usually rears its ugly head once the balance sheet is presented to the family at the family meeting. Often this is the first time that the next generation have been privy to the balance sheet. As mentioned by the SPF's

> *Parents not wanting to share because a. they know it isn't as pretty a picture as they would like it to be or b, they don't want any of their children to become entitled brats waiting for a handout. (Q41, SPF#3)*

The latest Trusts law changes (Trusts Act, 2019) which came into force in 2021, among other things, have made changes to information sharing where family trusts are involved, in that the beneficiaries of Family Trust should be disclosed to annually. The question on your lips now should be, are these happening and to what extent or level are these meetings sharing information with the beneficiaries in a language that everyone can understand? Let's not blame the parents or the Trustees here for everything, as some children or beneficiaries couldn't care less, and wouldn't turn up to a financial disclosure meeting with the family Accountant even if they were invited.

Succession planning facilitators provide strong evidence that levels of financial understanding within families directly influence family dynamics, particularly where non-farming siblings are involved. Where financial knowledge is high, facilitators observe greater acceptance of outcomes, improved cooperation, and a clearer understanding of "fair versus equal." Where financial knowledge is low, assumptions about wealth, resentment, disengagement, and emotional conflict are more common.

> *Most non farming siblings have not been privy to the business's financial situation. If they have been privy, it is usually because the 1st gen has involved all family members in business discussions for a long time &/or when it does get shared those with commercial acumen from their careers there is a combo of disappointed surprise. If done early there is often some use of the non-farming siblings' acumen which leads to better business, therefore, succession outcomes due to a greater emphasis on commercial realities vs emotional drivers. (Q37, SPF#3)*

Examples of this are based on discussions I have observed with different families.

Family 1: *(Waikato Family)* Involved one sibling being in a financial position to purchase the family farm and enable the family's single objective of keeping the name on the gate post. It also allowed the parents to extract capital to repay all debts, purchase a house in town, and have an income stream that met their financial needs. The parents were elderly and in poor health.

This required that sibling taking on significant debt in his own name and putting himself (and now his family) under financial pressure. It also required the Family (or the parents Family Trust) to leave funds in as equity, in the form of a loan.

In this case, when the conversation turned to the inevitable inheritance, then the uninformed members were asking for immediate payment of their "equal" share. This would have required the farm to be sold, as the succeeding child could not afford to purchase the whole farm at this stage and needed time to be able to do so. This in turn caused the succeeding child tension, grief, anxiety, feelings of financial pressure to take on crippling debt, and lastly a sense of failure or letting the family down if he didn't/couldn't settle to the Trust and it was to be sold.

Remember, the family's single objective was to keep the family name on the gate post.

The non – farming siblings involved in this process struggled with the concept of debt/income/profit and risk. To put it bluntly, they had no idea at all, but to be fair, perhaps nor should they. They had chosen a different pathway, were urban professionals and saw life through a fixed salary lens. Other factors that needed to be explored and discussed were the aspect of possible asset increases in value over time. How was this to be treated amongst the siblings? Who should be the beneficiary of this potential gain? The succeeding child who has taken on the risk to keep the name on the gate post, or the siblings equally, as is their right to an equal inheritance.?

What is required, is time to bring the non-farming siblings along with understanding the complexities of farming and profitability. This may take years as they grow in this aspect of knowledge.

Family 2: *(Taranaki Family)* Had a robust discussion on what the profitability of the farming business is, and what it could afford to take on as debt to distribute capital out to initially the parents but was to become part of the inheritance bucket for the non-farming siblings. This conversation was different in the aspect that value of the asset was secondary to the conversation. Loading the farming sibling with only enough debt that enabled them to survive and thrive, whilst also providing enough access to capital/income to the parents.

That conversation was different in the aspect that there was a recognition that wealth distribution "would not be equal" amongst the siblings, but the family kept coming back to what was most important to them. In this case, also keeping the name on the gate post, and with that, they agreed to compromise on "equal" to allow the transition to happen. Now this is not to say that this farming sibling gets a free pass to buy the farm at what could be seen as a "discount" and then turn around and immediately sell it to capture the value gain. There were some pretty good discussions around that aspect:

- Intent of the succeeding child.
- Their lifestyle and commitment to the business of farming.
- Time frames till when the non- farming siblings would say that the farm was "his".
- Opting out agreements.
- Structure of loans or equity from the parents to protect their wealth and income.

Family 3: *(Waikato Family)* Where it is evident that financial knowledge is missing, then situations arise with the next generation being at the other end of the scale. The next generation was feeling frustrated that the parents wouldn't give them the opportunity to go 50/50 on a 400-cow operation. They had been managing the farm for the past 5 years and thought it was time. As the interview progressed, it became evident that the communication from the parents of "why" this wouldn't work for them wasn't being had. They were just hearing "No." Still deeper in the conversation, this couple hadn't had any discussions to see what was required to enter a position of that scale. They:

- Didn't understand capital required.
- Didn't understand how to do a budget and/or cashflow.
- Didn't understand EBIT.
- Didn't understand ROA/ROE or Return on Investment (ROI)
- Had never been exposed to benchmarking data on the family business to see how they stacked up against the industry KPI's.
- Didn't understand how debt worked.
- Had not talked to their Bank to understand what equity they would need. (Mid 30's with $100K cash savings)

When this is a common conversation with the potential farming successor, and they are the ones in the business, then it is no surprise that when we involve the non-farming children in these conversations and discover how they see things, that this is where the potential for uninformed assumptions can be set. When assumptions aren't explored, they can become expectations, and when expectations can't be met, then tensions can arise.

Bankers corroborate this indirectly, noting that poorly understood financial realities often surface late in the transaction process, at which point options are constrained and tensions heightened.

> *Less knowledge risks assumptions of wealth and income, and a perception that the farming sibling could be 'set for life' if they 'get the farm'. Harder to understand the equal v fair argument when you do not understand what is required to pass the farm to the next generation (Q38, SPF #2)*

9.5 When Should These Conversations Start?

Succession planning facilitators emphasise that financial conversations should begin early and be normalised over time, rather than delayed until a transition or triggering event occurs.

This is a question asked a lot, mostly during workshop or presentations on the subject, when there is a large audience, wanting to explore this topic. Families sometimes say that the kids are only teenagers and don't understand what is going on, so it's too early. I will challenge the parents by asking "what sort of questions might the teenagers ask?" Invariably, these will be open, honest, simple (sometimes these are the hardest to answer) and usually involve "why". I think, the real reason is that the parents of teenagers don't know for themselves, exactly how they will do these things, so the path of least resistance is to kick the can down the road and say, "we will talk about it later'.

When discussions start early, expectations are more realistic, and families are better prepared for eventual change.

"Early and ongoing around the table, but more specifically when they are young adults in their twenties, it may not mean much at the time, but it will lay the foundation for discussions that will be required later." (Q39, SPF #4)

CMK Chartered Accountants (2018) suggest when to bring up the topic up as

> *A good rule of thumb: the succession conversation should start years before you actually intend to step back. For many, that might be in your 50s. If the next generation is already working on the farm, you might even start discussing broad ideas when you're in your 40s and they're in their 20s. Certainly, if you're five or ten years away from wanting to retire or significantly downscale your work, you should be actively planning now.* (CMK Chartered Accountants, 2018,)

Bankers observe that they are often engaged only once a transaction is already contemplated, at which point limited financial understanding and unresolved family issues can restrict feasible outcomes.

> *Build capability and credibility early. Gain operational, financial, and people-management experience — often outside the family business. Understand the numbers. Be financially literate, understand budgets, cashflow, and the true cost of ownership and debt. Demonstrate commitment and accountability. Show they are prepared to take responsibility, not just entitlement. Accept staged progression. Recognise that succession is often a process, not an event, with gradual ownership and control transfer. Communicate openly. Be willing to have honest conversations with parents and siblings about expectations, timing, and fairness. Seek advice early, not late. Engage advisors before decisions are forced by age, health, or financial pressure. In my experience, succession works best when the next generation is prepared, patient, and financially disciplined, rather than simply waiting for assets to transfer. (Q24, Banker #12)*

Accountants note similar patterns, with succession often approached late and framed narrowly around tax or compliance rather than long-term business sustainability. When asked what the parents' generation should be focusing on one answered, *"Off farm investment and returns for capital - investing to created cashflow off farm which will give more options for succession." (Q27, Accountant #2)*

10.0 Discussion Points

10.1 So Where is This Discussion Taking Me?

I am seeing a shift in thinking is needed to enable the transition of wealth from one generation to the next to happen seamlessly if we are wanting to keep land ownership in New Zealand and in New Zealander's hands. As mentioned in the Rabobank Changing of the Guard white paper, "*Based on current average land values, this changing of the guard is likely to be New Zealand agriculture's largest-ever intergenerational transfer of wealth, directly involving a current land value conservatively estimated at more than $150 billion of farming assets that will depend on a successful succession process.*" (Rabobank 2025 PINZ White Paper). I have a feeling that due to the wealth that has been created via increasing asset values outstripping the productive ability of the farms, then New Zealand is going to need to change how it has traditionally seen the value of this wealth or at least, the use of this wealth, to create income streams for succeeding generations. Especially if they wish to keep the family name on the gate post.

Ownership models may need to change, and expectations of the next generation as to inheritance will also need to change. If that doesn't happen, the banking industry is indicating that land ownership will continue to be via the larger farming entities, as these entities see land ownership differently, and will create large farming organisational structures. Scale and profitability are on their side now, and they will continue to expand and get bigger.

I feel that a shift towards an emphasis on capability, or capacity of the business, not entitlement, is what will underpin sustainable succession within farming families. This will be a difficult mindset shift of the 1st Generation farmers, as it will test what they have always thought. That they will be able to treat all their children equally.

A grandmother (aged 92) *(Rangitikei family)* spoke eloquently to her grandchildren at the family meeting. "*When we sold the farm to your father in 2005, it was not equal amongst all our children, but it had to be that way. You grandchildren simply can't divide the value of the farm by 4. It won't work because the succeeding person cannot afford to buy it.*" When questioned about the reaction of her non-farming children at the time, she said they asked her, *"How will we know that (the brother) won't just sell that farm?"* Her response was *"You will just need to trust."*

From a professional perspective, particularly among bankers and succession facilitators, sustainable succession is closely linked to demonstrated capability. The farms' ability to perform profitably should be the focus. Without the appropriate financial performance of the business, then overlayed with the appropriate financial loading, then I see conversations will constantly be orientated towards being equal amongst the next generation. If this is the case, options can be limited. Often, the answer is to sell the farm.

One Family *(Waikato)*, it was recognised that without the "son" being home for the past 14 years, then the farm would not be performing at the level that is it now, and the farming business would not have had the growth in scale that it has enjoyed. This was due to his energy, farming ability and financial acumen. The parents wished to create an opportunity where the son purchased the home farm, with the purchase price based on the debt serviceability of the farming business. The additional debt raised was then distributed to the non-farming siblings with the intention that they now have an opportunity to create wealth for their families from today, and not having to wait for inheritance payments. The parents' equity was left in as a loan, with interest being paid, to provide the parents with a comfortable lifestyle for the rest of their days. This was seen as an obligation of the son to look after mum and dad and as such, the Banks debt loading of the business was also considered with this aspect.

Another *(Taranaki Family)* involved the parents recognising their son with "more" compared to the others (Based on today's values). Dad was very eloquent when he summarised the Family meeting day with the comment. *"To make this happen, we have to treat him differently, and then, we can treat you all equally."*

A lot of the conversations that I am having with the next generation are based around what they want to achieve in their futures. (buy the farm, go 50/50 on the home block etc) and often these opportunities are on larger scale operations. We are all aware that the farming scene in NZ has changed dramatically over the last 50 years. It is no longer possible to start your career in your early 20's going 50/50 sharemilking 120 cows, and doubling the size of the herd every contract, to eventually buy your first farm in your thirties. I find that because todays parents have built their enterprises over their farming careers of 30-40 years then the next generation have an expectation that this scale is where they will start from. There can be little recognition or understanding of the steps the parents have been through or more common place, what is now required to be able to achieve their success or even start at the scale the parents are currently at.

This point of realisation, from my perspective, is coming way too late on the conversations. It would be much better to describe to a 20-year-old what they will need to contribute, equity wise, to go 50/50 on 400 cows, and work as a family to achieve that goal, as opposed to the conversation above, where at 35 years old, you are only now realising that $100,000 cash won't cut it.

This discussion is again reinforcing what has been said many times by others, the roles of professionals in all of this is imperative. Bankers, accountants, and succession planning facilitators consistently describe their roles as facilitators, coaches, educators, and translators rather than as architects of succession solutions. Bankers focus on bankability and sustainability, accountants on education and modelling, and facilitators on alignment and process. All three groups emphasise that there is no single "best" structure and that technical solutions cannot compensate for weak leadership or poor family alignment.

For me, Family leadership sits with the parents. Once they are able to succinctly describe their plans and goals and describe what is most important to them in a way that the family can understand, then collectively the family can work together for a common goal based on understanding. Often it is not until the "why" is understood, that families can move forward together with compassion, love, trust and compromise if that is required.

When financial knowledge is high amongst the 2nd gen, then the conversations that are had in respect of what the farm business can achieve are more robust. The ability for the family to have structured meetings and come at the topic of what the profit and loss, plus the Balance sheet are telling you, removes the emotional aspect of the conversation to some extent.

"If done early there is often some use of the non-farming siblings' acumen which leads to better business, therefore, succession outcomes due to a greater emphasis on commercial realities vs emotional drivers" (Q37 SPF # 3)

It was reported in Jones (2025) Kellogg report, that more than half of her respondents weren't offered any financial literacy education while at school in New Zealand and of those who were, 40% of that was done in secondary school only. (Jones, 2025,) She also highlighted the issue that if New Zealander's are not prepared to recognise the need to develop financial literacy, there is a risk of further deterioration which could have a significant impact on the wider New Zealand economy.

10.2 The Budgets and What They are Showing Us

This is where the conversations in succession planning often move into "the Grey" bits. For me, they start to show a picture of what can be done, and allows the family, or the parents in particular, to understand what can be done, and allows them to start to form decisions with the reasoning of "Why"? Once this aspect of the business is understood, then the conversations around fair and Equal can be discussed openly and honestly.

This is often one of the elephants in the room that need to be addressed. "How do you eat an elephant? – One bite at a time"
The purpose of the budgets above (Tables 6-16) are to show what average efficient EBITDA could look like and associated asset values of the different enterprises. What this then puts into play now is the ability to capture the wealth that the 1st generation have created.

Wealth can be defined as the difference between "What you own **LESS** What you owe"

10.3 A Potential Family Situation

This is a demonstration of the implication of debt, the need to look after the parents' income, and the possible impact on ability to meet inheritance needs if all siblings are to be treated equally.

Let's see if we can make a situation up and understand what families will need to consider: Refer to Table 6 and Table 8 above.

We have a typical 130Ha Waikato Dairy farm business valued at approximately $6,840,000.

Stock could be worth $945,000 and we will allow for $150,000 of plant and machinery. (Well maintained, not new). Let's round the total to $8,000,000 to make it easy. (I have ignored the possibility of Fonterra Shares for this example)

The reality in the background (to make this example work) is that the parents have $3,000,000 of existing debt (@ $20/Kgms) and no off-farm assets. The farm only has 2 houses. Debt could be because they purchased the 60Ha block next door within the last 10 years.

So today, their net worth is @ $5,000,000 + personal assets (car, boat etc). Not bad.

The Budget indicates that this business could sustain a debt loading of @ $4,400,000 (better get that checked by the banks though)

So, what could happen here is:

The Farm gears up to $4,400,000. That allows Mum and Dad to extract $1,400,000 out of the business.

The Succeeding child has accumulated $1,000,000 of wealth and can contribute that as they purchase equity in the farm. (for this to happen, usually a company structure would be used). This has been as a result of them working, saving and having built up their own equity. It could be a house that will be sold, and cash contributed, or it could be livestock through a sharemilking career.

That $1,000,000 will be passed through to Mum and Dad and they will now have $2,400,000 cash and an investment value of $2,600,000 left in the new farm business.

Seems good so far.

10.3.1 Issues

- Mum and Dad need somewhere to live, so they buy a nice home for $1,500,000.
- That leaves them with $900,000 for investments.

The farming business now looks something like this: (Excluding the house and investment portfolio)

- Assets $8,000,000
- Debt $4,400,000
- Equity $3,600,000

The Shareholding will be split Parents @ $2,600,000 = 72.23%. Succeeding child @ $1,000,000 = 22.77%.

At first looks, the farm could generate a $137,000 tax paid surplus.

These funds are available for:

- Drawings to the succeeding child
- Interest to be paid to the parents.
- Or Profit share.

10.3.2 Income

Mum and Dad have concluded that they need a combined income of $120,000 cash to meet their current and potential needs for their "next 20 summers".

Based on calculations using the Inland Revenue Department (IRD, n.d.) tax calculator, an individual would require approximately $75,000 in gross income each to meet this threshold.

How will they receive that income is the big question. Options could be:

- Profit share from the farm.
- Interest charged on the money they have left in (i.e. the $2,600,000)
- Interest earned from the $900,000 invested.

10.3.3 Implications That the Family Now Faces

Mum and Dad request (and need) an interest payment on the money they have left in.

Interest @ todays bank deposit rates will be between 3.45-3.65% for short term rates, and 4.70-5.00% up to 5-year Term Deposits. Assume we go for a midpoint of 4%, that equates to $104,000 Gross. (before tax)

Apply that to the $900,000 also invested = $36,000 Gross. That's $140,000 Gross or combined @ $113,000 net after tax (allow for some rounding) for Mum and Dads income.

10.3.4 Offsetting This, is The Immediate (Or Short Term) Effect That Could Have on The Family Business

Table 17 below shows what could happen.

- Parents can receive some income. (not the full $120,000 cash they desire)
- The farm will still create a surplus.
- The succeeding child will need to have some off farm income to support the family drawings. This may not be possible due to location or having a young family of their own.

Table 17. *Impact Of Paying Interest On Family Loan To 130 Ha Waikato Dairy Farm.*

	Average efficient Budget - Waikato farm					Hectares							
						130			Avg Kgms/ha	KgMS	$/KgMS		
Farm Working Expences							Income						
							Production		1,135	147,550	9.00		1,327,950
Production	$/KgMS	/Ha											
147,550	5.85	6,640			863,168		Stock sales			147,550	0.70		103,285
EBITDA					568,068								
Less Principal & Interest Cost - 30 year term													
Average debt /KgMS		debt	%										
Waikato	30	4,426,500	7.5%		371,409								
Family loan		2,600,000	4%		104,000								
Tax					33,020								
Net Profit: Available for					59,639				Gross Income				1,431,235
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

10.3.5 So, What is The Issue That This Scenario is Raising?

There are a multitude of other issues that need to have been addressed before succession can effectively take place.

- The immediate issue is the cashflow or affordability of the business proposal for the succeeding child.
- This scenario is not sufficient to effectively operate a farm of this scale. (i.e. not enough profit generated)
- A reduction in family interest rate applied will help the succeeding child's cashflow but will impact on the parents' income.

What could have the parents done to protect themselves from this situation?

- They needed to already have a house off-farm to move into.
- Based on a return of 4% before tax. They need to have an investment portfolio of @ $3,750,000 to meet their income level. (Assuming they want to live on the income produced, and not touch the capital.). If you wish to use 7% return before tax, then they will need a portfolio of @$2,200,000). I suggest you talk to Financial Advisor to get an accurate recommendation and don't treat this as financial advice at all.
- The succeeding child needs to be able to viably reduce debt, with the potential to repay their parents' remaining equity over, say, 15 years. (This may be viewed by siblings as part of their inheritance entitlement.)
- The parents need to have captured all possible ways to access capital. A common avenue is to create titles if able and sell the corner of a paddock or two.
- The succeeding child may have needed to contribute more capital to the new business.

Future considerations may mean that the parent's equity being left in (siblings share or inheritance) will need to be addressed early.

- Setting the value of the parents' investment and determining how eventual inheritance values will be calculated—ensuring the succeeding child can realistically fund any payout to siblings
- This protects the succeeding child's cost of entry.
- This also establishes clear expectations for siblings regarding potential inheritance.
- It may also set timeframes for when distributions must occur if the parents pass away unexpectedly (e.g. a sudden or traumatic event).

Let's face it, when Mum and dad are here, things go along happily, but once they pass then inheritance, timing of distribution and entitlement to wealth share etc all come to the table. If Mum and Dad start this process at aged 60, and live till 85-90 yrs old, non-farming siblings are happy so long as Mum and Dad are being looked after financially. It's when they start at aged 60, and both suffer a traumatic event at the same, or are close timing wise (for arguments sake, within 5 years of the farm being sold to the succeeding child) This possibility needs to be discussed. This elephant is called 'what if…"

Now let's look at what scale could show.

Table 18. *Impact Of Paying Interest On Family Loan To 240 Ha Canterbury Dairy Farm.*

	Average efficient Budget - Canterbury Farm					Hectares							
						240			Avg Kgms/h	KgMS	$/KgMS		
Farm Working Expences							Income						
							Production		1,577	378,480	9.00		3,406,320
Production	$/KgMS	/Ha											
378,480	5.55	8,752			2,100,564		Stock sales			378,480	0.70		264,936
EBITDA					1,570,692								
Less Principal & Interest Cost - 30 year term													
Average debt /KgMS		debt	%										
Canterbury	31	11,732,880	7.50%		984,456								
Family loan		4,600,000	4%		184,000								
Tax					126,682								
Net Profit: Available for					275,555				Gross Income				3,671,256
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Table 18 above shows a Canterbury farm, 240ha producing 378,000 Kgms.

Based on the same scenario as the Waikato Farm, the existing debt in the background is $7,600,000 (i.e. debt @ $20/Kgms)

The model indicates

- an acceptable debt loading cold be $11,732,880.
- It shows that the parents can draw @ $4,100,000 capital from the farm, plus receive whatever equity the succeeding child is putting into the farm. Let's say $1,000,000.
- This will allow the Parents to purchase that house for $1,500,000 and still have the balance of $3,600,000 to invest outside of the farming business.
- The farming balance sheet now looks like, total business assets of $17,300,000 less debt of $11,700,000 = $5,600,000 equity.
- Split will be parents @ $4,600,000 or 82.1% and succeeding child @ $1,000,000 or 17.9%.
- The parents are in a great place to be able to receive the income they desire from off farm investments alone, and the scale of the operation allows the succeeding child to pay an interest cost on the equity remaining in from the parents.

As you would expect, when you model on averages, then increased scale, more often than not, will indicate there will be increased profit or surplus funds available.

10.4 The Underlying Issue is the Need to Eventually Purchase the Parents' Shareholdings Out.

The Waikato farm being @ $2,600,000 and the Canterbury family being @ $4,600,000. (both cases there has been no allowance for possible ownership of Fonterra shares)There is a need to understand the ability of the succeeding child to be able to pay down debt, so as to be in a position, all things being equal to payout the parents equity shareholding to the siblings when the time comes.

For this example, if the bank debt was placed on table loan over 30 years @ 7.5%, Debt reduction would look like:

Table 19. *Amortisation Table of Loan placed over 30 years @ 7.5% Interest Rate.*

	Waikato farm	Debt repaid	Canterbury farm	Debt repaid
Start debt	$4,400,000		$11,700,000	
After 10 years	$3,818,000	$582,000	$10,155,013	$1,544,907
After 15 years	$3,318,000	$1,082,000	$8,824,919	$2,875,001
After 20 years	$2,591,000	$1,809,000	$6,891,902	$4,808,098

This shows the ability of the Waikato succeeding child, after 15 years, to repay $1,100,000 of the initial Bank debt of $4,400,000.

They could redraw this amount, and pay it to the parents, who could then obtain most of their income from a portfolio that would now be @ $2,000,000. (original $900,000 + $1,100,000). This would in turn reduce the financial burden of the succeeding child by lowering their support to the parents at this time (in 15 years) but does nothing to support them from today onwards, where we have acknowledged the financial pressure exists.

10.5 How Do You Treat Inheritance?

This part of the conversation is difficult, and the Parents need to step into this space and be firm on how they see things happening.

The equity left in the farm by the parents at the start was $2,600,000. The assumption here is that all things being equal over time. If there were to be three children, you could argue that after 15 years, the succeeding child would be able to repay their two siblings approximately equal shareholding of the total value of the parent's equity, if that value didn't change over time, (note, this will require everyone to agree that the eventual inheritance value will be set at $5,000,000). But it still does not address the lack of financial capacity of the business to support the succeeding child and the parents now. A simple solution is the contribution of more capital at the start from the succeeding child, will have a significant impact.

How the Waikato parents wish to divide their wealth upon their passing will need to be considered and weighed up to see if this is deemed fair from the parent's point of view.

Things they may consider are:

- The fact that they have been able to live close by and have the connection of the farm and the family.
- They have maintained a role in the business. Given them purpose.
- The income they have received over the years from the interest paid to them.
- The joy they have received having the name on the gate post retained.
- Recognition that only one child took on the responsibility of buying the farm.

There are so many other reasons that will be important to families as they establish their own journey, their values and how they identify what is really important.

Scale in this case does indicate that the ability of the succeeding child on the Canterbury farm to repay the parents equity of @ $4,600,000, and therefore enabling the siblings to be treated more equally over time, could work out sometime between years fifteen and twenty. Due to the increased profitability shown, earlier distributions could also be considered.

The Sheep and Beef scenarios are much different.

The equity required to establish a profitable business, that allows sufficient cash surpluses is much greater in proportion to the value of the assets.

Table 20. *Impact of paying Interest on Family Loan to 385 Ha Waikato Sheep and Beef operation.*

	Average efficient Budget - Waikato S&B farm					Eff Hectares							
						385			Avg SU/Ha	SU	$/SU		
Farm Working Expences							Income						
							Production		9.7	3,735	134.00		500,423
Production	$/SU	/Ha											
3,735	75.00	728			280,088								
EBITDA					220,336								
Less Principal & Interest Cost - 30 year term													
Average debt /SU		debt	%										
Waikato	300	1,120,350	7.5%		94,004								
Family loan		3,800,000	4%		152,000								
Tax					-3,923								
Net Profit: Available for					-21,746				Gross Income				500,423
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Table 21. *Impact of paying Interest on Family Loan to 1,000 Ha Waikato Sheep and Beef operation.*

	Average efficient Budget - Waikato S&B farm					Eff Hectares							
						1000			Avg SU/Ha	SU	$/SU		
Farm Working Expences							Income						
							Production		9.7	9,700	134.00		1,299,800
Productio	$/SU	/Ha											
9,700	75.00	728			727,500								
EBITDA					572,300								
Less Principal & Interest Cost - 30 year term													
Average debt /SU		debt	%										
Waikato	500	4,850,000	7.5%		406,943								
Family Loan		9,600,000	4%		384,000								
Tax					-43,863								
Net Profit: Available for					-174,780				Gross Income				1,299,800
Drawings - Off Farm investments/kids education													
Depreciation													
Capex/Development													

Tables 20 and 21 demonstrate the inability to service much more, other than the Bank debt applied to this scenario. It also demonstrates the inability of the farm business to repay significant enough debt over time to address the inheritance issues that typically arise (Table 22).

Table 22 *Amortisation Table Of Loan Placed Over 30 Years @ 7.5% Interest Rate.*

	Waikato Sheep and Beef 3735 SU	Debt repaid	Waikato Sheep and Beef 9700 SU	Debt repaid
Start debt	$1,120,350		$4,850,000	
After 10 years	$972,408	$147,942	$4,209,554	$640,441
After 15 years	$845,043	$275,307	$3,658,193	$1,191,807
After 20 years	$659,944	$460,406	$2,856,899	$1,993,101

This is highlighted as it directly influences how families may need to start thinking about the value of the assets that are behind the intention of keeping the name on the gate post. If the non-farming siblings are wanting capital from the family farm, then the two ideals will not be met.

In neither scenario, will the succeeding child be able to payout the sibling's inheritance entitlements. If all siblings are to be treated equally, the inevitable result will be that the farm will need to be sold if that is the need of the parents.

The kiwifruit industry at present is booming.

Cashflows are strong, and the budgets indicate an ability to pay an interest rate on the parent's equity to meet their potential income needs.

With the current need to reduce the Licence for G3 component being relatively short (@13 years), the Banks demand of principal reduction has an impact of the current use of cash profits.

Table 23. *Impact of paying Interest on Family Loan to a 3.5 Ha BOP Kiwifruit operation.*

	Average efficient Budget - BOP - Gold K/Fruit					Eff Hectares						
						3.5			Avg Trays/ha	Tot Trays	$/tray	
Farm Working Expences							Income					
							Production		18,000	63,000	11.69	736,470
trays/ha	Costs/Tray	Costs/Ha										
18,000	3.75	67,500			236,250							
EBITDA					500,220							
Less Principal & Interest Cost - 30 year term												
Average debt /ha		debt	%									
BOP	483,500	1,692,250	7.5%		141,989							
Licence repaid by 2039 (13 yrs)												
G3	280,000	980,000	7.5%		118,232							
Family loan		2672000	4%		106880							
Tax					48,230							
Net Profit: Available for					84,889				Gross Income			736,470
Drawings - Off Farm investments/kids education												
Depreciation												
Capex/Development												

Table 24. *Impact of paying Interest on Family Loan To a 10.0 Ha BOP Kiwifruit operation.*

	Average efficient Budget - BOP - Gold K/Fruit					Eff Hectares						
						10			Avg Trays/ha	Tot trays	$/tray	
Farm Working Expences							Income					
							Production		18,000	180,000	11.69	2,104,200
trays/ha	Costs/Tray	Costs/Ha										
18,000	3.75	67,500			675,000							
EBITDA					1,429,200							
Less Principal & Interest Cost - 30 year term												
Average debt /ha		debt	%									
BOP	483,500	4,835,000	7.5%		405,684							
Licence repaid by 2039 (13 yrs)												
G3	280,000	2,800,000	7.5%		337,804							
Family loan		7635000	4%		305400							
Tax					137,794							
Net Profit: Available for					242,518				Gross Income			2,104,200
Drawings - Off Farm investments/kids education												
Depreciation												
Capex/Development												

Once the G3 licence has been repaid, the resulting improvement in tax paid profits should enable the succeeding child to address the parents' equity.

Table 25. *Amortisation Table of Loan placed over 30 years @ 7.5% Interest Rate.*

	BOP Orchard 3.5Ha	Debt repaid	BOP Orchard 10Ha	Debt repaid
Start debt	$1,692,250		$4,835,000	
After 10 years	$1,468,788	$223,462	$4,196,537	$638,463
After 15 years	$1,276,407	$415,843	$3,646,879	$1,188,121
After 20 years	$996,822	$695,428	$2,848,063	$1,986,937

Table 26. *Amortisation Table of Loan placed over 13 years @ 7.5% Interest Rate.*

Zespri shares	BOP Orchard 3.5Ha	Debt repaid	BOP Orchard 10Ha	Debt repaid
Start debt	$980,000		$2,800,000	
After 5 years	$709,646	$270,354	$2,027,559	$772,441
After 10 years	$316,741	$663,259	$904,976	$1,895,024
After 13 years	$-	$980,000	$-	$2,800,000

What these budgets don't address is the potential cost of health care for the parents, and how this cost will be funded.

- What would happen if they both need care and there is a loan to the farming business.? This is a great question to be discussed with your accountants and/or solicitors to understand potential scenarios.

11.0 Conclusion

This topic of financial literacy is being recognised in the rural sector as needing attention.

The survey responses from the professionals are telling us that more education is needed to bring the topic of profit and loss to the kitchen table. This needs to be discussed sooner rather than later if the 1st generation are ever thinking that they would like to be able to have succession a part of their family journey.

The financial models indicate that scale is important to allow the 1st generation to withdraw capital, enough to look after themselves for their "next 20 summers", but that is dependant on the industry involved. This is shown with Table 21. Where the value of the assets will make it difficult for the 2nd generation to purchase unless they have significant equity to contribute, or the families change the way the look at land ownership. Perhaps not owning the land but having a business that is supported by the owning entity is the way forward.

Planning for Succession takes time and things need to start when the 1st generation still have 15+ years left in the farming career, so that they can invest off farm to set themselves up for their retirement years. This planning needs to start with the parents being clear in what they want to have achieved when they get to retirement and work backwards from there.

12.0 Recommendations

The solution to addressing the gap in financial literacy in the rural sector will require a multitude of approaches. It will involve a change in attitude that moves people from thinking "this is too hard" to "this needs to be understood" if any of the issues highlighted above are to be acknowledged. This can be done in a 2-pronged approach.

The industry and media needs to tackle it head on by talking about it more. What gets talked about gets heard, rather than saying it is the individual families' responsibilities to solve.

And the individuals need to also embrace this way of thinking. Move from a more relaxed approach and using the weather as an excuse, "Theres no point budgeting because I don't know if its going to rain or not" or a more commercial approach. Budgeting and planning needs to be seen as part of the business of farming and think of this as the $1,000/hour return vs the $50/hour return when labouring outside.

12.1 Change How We See The Value of The Assets Owned by The 1st Generation

The Primary industry needs to focus on financial literacy and help transition the perception that farming is just about lifestyle. Farming needs to be seen as a business that is profit driven rather than a business that has survived due to natural capital gains over time. The ability for farm owners to still became wealthy through capital gains in the relatively near future may not be available to us as an option to rely on. The ideals that because you are a farmer or landowner, thus "you must be loaded" also needs to change and this will only be achievable if people look at farming with a financial lens. The adage of being asset rich and cashflow poor still rings true, and probably will continue to do so as the value of assets when set against their productive ability is mis matched.

Merrilees (2021) wrote in his Kellogg report the recommendation that farm valuations should be based on the last three years EBITDA and the use of a multiplying factor, not on the traditional dollars per Hectare approach. That this methodology could help with removing the entry cost to farm ownership barrier has real merit, but I feel that for the industry to adopt such a way of thinking will take time. The biggest hurdle to get over here would be the perceived loss in value of the incumbent farm owners as this shift in valuation method would surely see a correction in land values, as also demonstrated in Merrilees's report.

Based on the average efficient Waikato dairy farm noted above (Table 6) the EBITDA shown is $568,068. Based on current total farm Asset values of $7,784,680. That would indicate a multiplying factor of 13.7x. To have a multiplier that high, that would indicate the business had the ability to create revenue growth, expand margins and have scale ability. I suggest not all of those things are present in the models above, especially when farmers are price takers, and have little to no control over input costs and weather.

12.2 Impact Within Families

The value that is attached to the farm can however, have an immediate impact on how families treat the entry/exit cost of transitioning the Family farm to the next generation. I back this statement up when I return to the emotional intent of some families at the start of their succession planning journey, when they say that Mum and Dads wishes need to be respected, and that keeping the family name on the gate post is the most important value that the family wishes to hold. Meeting this intention requires a shift in thinking of what wealth means, and how the next generation may be treated in respect of inheritance value.

12.3 Normalising The Financial Aspect of Farming Business at The Kitchen Table

This reinforces the commentary by the accountants, bankers, and the succession facilitators, that the profitability of the farming business needs to be introduced into family discussions early. When the kids are old enough to start to understand even a little bit about business, start talking to them and normalise the conversation around income – expense = profit. Often when the kids ask questions, these will lead to open conversations.

12.4 Training and Education

The Stigma of having a lack of financial literacy needs to change. The rural Industry needs to increase its purposeful conversations on this topic, and promote programmes that are already available and mostly run by open invitation workshops e.g.

- Rabobank - Workshops
- DNZ - Mark & Measure
- DNZ – Online tools.
- B+LNZ – Workshops
- B+LNZ – online tools in their knowledge Hub

In addition, education at secondary and tertiary schools is needed to bring compulsory learning in this competency.

12.5 The Role of Rural Professionals

Banks need to start having stronger guiding conversations with customers to promote education and learning.

Accountants need to start to sit alongside their clients and hold their hands more. Those that bring in industry KPI's and compare their clients' businesses against others are helping clients understand their numbers to a greater degree than those accountants that don't do that.

12.6 What Support is Already There

The government could provide more funding towards training and upskilling. The use of Xero/Figured/Farm Focus/Excel and cashflow programmes to mention just a few.

The Regional Business Partners network is excellent at promoting funding towards development courses in the city, if this could be taken into the countryside, the impact will be greater for rural businesses.

To conclude:

> *The next generation need to Improve their own financial acumen (at least be all over controlling their own cashflows in the first instance). Often it has been mum and dad historically and leaving it to them (also mum & dads' fault for not including them from an early age in the decision-making process). All of a sudden, the kids are in their late 40's and have never made any big decisions about their current position or future's. (Q24 - Banker #9)*

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