<u>Summary - Case Study 15: Delta Family</u>

Business not continuing

They built it, and then spent 20 years arguing about how to cut it up.

Why did a family that had grown 1,200ha to 5,300ha over a fifty year period end up selling it at a fire sale?

The Delta family ran a successful sheep, cattle and cropping business in the 730mm rainfall belt west of the divide in southern Australia. The second generation handed over ownership to generation three when the eldest of that generation was in his late teens. The transfer was part of a strategy to avoid death duties. Generation three ran the farm successfully allowing some of the sons (generation four) to return home in their early 20s. At that point, in the 1960's, generation four started to grow the business further.

The development plan was simple; three years of crop, then pasture with cattle grazing for two to three years and then sheep grazing for four years. As soon as they had too many livestock they would lease land, then purchase it usually borrowing all the money. The growth to 5,300ha was as steady as the final sale was abrupt.

While there was often tension amongst the brothers, they agreed on the big ticket items, and kept out of each other's way by dividing responsibility for the management of the sheep, cattle and crop. In the late 90's consultants were engaged to assist in benchmarking and they pushed the family to start succession planning.

Over a twenty year period the Delta family worked with thirteen succession planners. Each time they ended up with no progress, and a bemused, confused, sometimes slightly damaged succession planner that would be dispensed with. The brothers would start again with a new planner.

The brothers eventually decided to appoint a liquidator to sell everything. The controlling brother tried, once again, to play for time, but eventually had no alternative other than to sign the agreement.

There are four lessons in this story:

Lesson One - **a good news story:** The business grew in size and value, where it went from 5,000 DSE's to 50,000 DSE's with about 70% equity. The starting capital in 2016 values was about $2.2 million. This was grown to a real net value of $7.4 million

Lesson Two: Failure to agree on how to dissolve the partnership led to liquidation and a fire sale at about a 40% discount.

Lesson Three: The method of the engagement of the planner. One of the brothers had a habit of pressuring the succession planner. When progress was apparent this family member would change the rules or throw in a 'curveball', and stop the progress. The clear lesson here is that all communication between the family and the planner must be transparent.

Lesson Four: If the family had a shareholder agreement, with an enforceable buy-sell arrangement they would have not have ended up as they did. Buy-sell agreements can provide a mechanism to allow resolution of the issues.

After the legal mediation process ended with agreement to liquidate, it didn't take long for word of a fire sale to spread and the value to drop. The combined cost in time and professional fees, combined with lower production towards the end of the company and the fire sale of the assets puts the total cost at about $3,000,000.

The emotional cost was huge, and the family is fragmented.