

# AGRICULTURAL CASE STUDY



## **CASE STUDY:**

Saskatchewan Feedlot

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## **HISTORY**

Joan Allan (68) and Frank Allan (72) have owned and operated a 6,000 head feedlot and farmed 5,000 acres for the past fifty plus years in Saskatchewan. They have five adult children, all of whom do not want to carry on the family legacy.

As is quite common, most non farming siblings leave the farm in their late teens, as was the case in this instance. Frank Jr, in his early forty's is married with four children, and is his parent's succession plan. The operation is valued at Ten million with little debt, hence, Frank Jr would like to double his feedlot operations, and have a sufficient operating line of credit to manage his cash flow.

As part of the succession plan, Frank Jr, will need to develop a plan to compensate his four siblings, and eventually fund his parent's retirement as his parents do not have sufficient nonfarm assets to cover twenty to thirty years of retirement. Frank Jr is seeking a total capital expenditure of 26.75 Million, however, local institutions in his area are only willing to lend 14 million, against a pledge of all his assets as security.

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## **PLANNING / STRATEGY**

The planning included Tax, Cash Flow, Debt, Risk Management, Insurance, Retirement, and a transition plan. William employed their advanced Tax and Estate planning team to ensure a successful outcome.

William introduced Scott Robertson of Fit Capital Solutions (one of many options provided) to the Allan family. Frank Jr met with Fit Capital to discuss their plan moving forward. The Allan family decided to work with Fit Capital Solutions. With the client's consent PWM worked closely with the accountants, their financiers, and the legal professionals to create and implement a viable solution.

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## BENEFITS

**To summarize, we were able to structure additional debt in the amount of \$14,750,000 (previously held debt of \$12,000,000) to assist with the transition of this generational farm. In addition, the client was able to purchase additional lands, assist with ongoing equipment requirements, acquire additional cattle, and vastly improve working capital while reducing total annual interest payments by \$500,000+ per year.**

- Establish a new relationship with an excellent strategic capital partner who will continue to grow with the family.
- Reduced interest rate from approximately 4.00% on all debt to 1.67% - estimated interest cost savings comparing the same debt levels is approximately \$500,000 per year.
- Total Interest cost savings plus increase to income/profitability for the family is estimated conservatively at \$1.5 million per year.
- With access to additional debts, the client is able to implement risk management strategies to mitigate downside risk on commodity prices.
- Provide 100% financing to acquire new lands requested by the client; Increase total head count on the feed lot + custom feeding by approximately 3,000 head.
- Increase total farmable lands via the purchase of neighboring lands at a discount.
- Re-amortize existing debt + land purchase over 25 years - including all short and long term debt, capital leases, and credit cards with a direct effort on reducing total annual spend and increase working capital.
- Free up \$1.0 million in working capital via a LOC (Line Of Credit) to assist with ongoing operations + Cattle Purchases.
- Provide a pre-authorized \$1,500,000 Equipment Facility to be used when required - 100% financing.
- Reduced bank covenants to provide client with increased flexibility to operate.

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## THE FUTURE IS BRIGHT INDEED!

- Working relationship with Fit Capital & Peters Wealth Management
- Joan & Frank Allan Sr successfully transitioned to Frank Jr.
- Retirement plan is now in place for Frank Jr's parents.
- The Non Farming grown siblings have been provided for without having to sell farm assets.
- Frank Jr, his wife, and children have a financial plan in place.
- Risk Mitigation now in place, both Corporately & Personally.
- Sustainable financing in place for managed growth.
- Line of Credit available to purchase as needed at record low %.

**The Allan families can now focus on the future, do what they do best, Farm. Best of all they should now be able to stop and "Smell the Roses" every now and then! Job Well Done, All Around!**