

# LendIt Fintech



Welcome to the Fintech One-on-One Podcast, Episode No. 301. This is your host, Peter Renton, Chairman and Co-Founder of LendIt Fintech.

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Before we start this episode, I want to tell you about a brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd. You can apply to join and find out more at [lendit.com](https://lendit.com)

Peter Renton: Today on the show, I'm delighted to welcome Artem Milinchuk, he is the CEO and Founder of FarmTogether. Now, FarmTogether is a super interesting company, they are focused on farmland, investing in farmland, they've created an investor platform where they've got a system where they can just bring in ...for accredited investors right now, pool investor capital together, purchase actual farms, investors can enjoy their cash flow and appreciation from these farms.

We get into this process in some depth, we also talk about farmland as an asset class, how it's performed, how big it is, how many investors are investing right now. We talk about their underwriting process, how they find farms to acquire, what they're doing with technology, we talk about their business model and much more. It was a fascinating interview, we hope you enjoy the show.

Welcome to the podcast, Artem!

Artem Milinchuk: Thank you, Peter, great to be here.

Peter: Great to have you. So, I'd like to get this thing started by giving the listeners some background about yourself. Just give just us some of the career highlights before you started FarmTogether.

Artem: Absolutely. Before starting FarmTogether in 2018, for ten years I was in finance, mostly in the investing side with a strong focus on food and agriculture. I was at Ontario Teachers Pension Plan which is now a \$200 Billion global Canadian pension fund. I was at Sprott which is a natural resources-focused investment fund, I also worked with at a family office and at PwC so I had to opportunity to see the agriculture sector, the food sector, the farmland sector both distribute geographically in different verticals so I think I have a really good 360 understanding of how everything is connected, everything works. And that's why I felt that I had a really right set of skills to start FarmTogether.

Peter: Okay. And so, where did you grow up, where is your accent from?

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Artem: So, born in Soviet Union, raised in Russia. I did my bachelors and masters in Moscow at Higher School of Economics which is a sort of a joint venture or a sister organization, if you will, of the London School of Economics, a very academic economic education and really was inspired by the right economics to bring wealth and prosperity to everyone and to grow economics to bring, you know, dismay and disruption.

Peter: (laughs) Right.

Artem: So, I think....yeah, that's something that always kind of drives me is how do we use the finance economics for good. I moved to Canada in 2007 so I lived in Toronto for 10 years.

Peter: Okay, okay. So then, what was the founding story for FarmTogether? Was there some sort of aha moment, you know, why did you decide to focus on farmland?

Artem: There was an aha moment, I think this was in 2015 when I was at Ontario Teachers. As I mentioned, it's a very diversified, very active investment, I mean, they go literally to the heights of space, to the depths of the ocean to find that alpha. I think I was reading an article by Julie Kroninger who is one of the godfathers or godmothers of farmland investing and she said this is a \$10 trillion asset class and yet only 2% of this asset class is kind of owned by investors. And, it blew my mind because when you look at farmland it's just so attractive and we'll talk about why, but so attractive to a pension fund, but really to everyone and yet it wasn't invested into or owned by any kind of investor, it's literally under our feet.

And then, you know, 2015/2016, it's already when people are starting to get really serious about climate change. I think the Paris Accord was signed, Ontario Teachers is as always at the forefront of this, ESG was already something used inside our organization and farmland is just an absolutely incredibly powerful lever for impacting those stable development goals of climate change feeding the planet sustainably. And so, it's rarely in finance that you find a whole asset class that hasn't been developed yet and I just, you know, couldn't resist being the person to build that asset class.

Peter: Right, right, very interesting. So, maybe you could just give us a sense of the state of the American farmland economy. You know, when I think about farmland, I think about big corporations owning these farms so what percentage...what is it like between, you know, individual small farmers versus these huge corporations?

Artem: That is actually a fairly common misconception, no offense to anyone, but it is a common misconception, 98% of US farmland is owned by families,

Peter: Wow!

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Artem: This is very much a family affair and 70% of farmland is actually in farms less than \$10 Million in value so this is both in terms of dollar value, in terms of acreage size. So, this is a very fragmented market where most of it is a family business.

Peter: Hmm. That's really interesting. So, you said like 2% of investors own this asset class and obviously it's a massive asset class.

Artem: Two percent of farmland is owned by investors.

Peter: So, do you have some stats on like what has been historical performance of this asset class?

Artem: Yeah. So, we have good information going back to the 60s, 1960s. Farmland, on average, increased by 5.9% a year in terms of value of land. Now, we have better information starting from 1991, which is the NCREIF [National Council of Real Estate Investment Fiduciaries] Farmland Index, it's an institutional quality index composed of sophisticated institutional investors such as Prudential and Nuveen that tracks both income and price appreciation of land. So, that index since 1991 to today has delivered about 11% in total annualized returns every year. So, this is both the income from land that comes through either direct operations or rent and the price appreciation component and in that land has outperformed stocks, bonds, infrastructure, gold, CPI, it really has done tremendously well.

Peter: Interesting, really interesting. So then, investors have been typically shut out, I mean, I can't think if there are REITs focused on farmlands, how have investors accessed this asset class?

Artem: There are two REITs, but given the size of the space it's still just a drop in the bucket. There are also some large institutional funds aimed at...you know, pension funds, endowments, foundations. There are a number of smaller private funds, but typically the minimum check sizes are \$250,000, \$500,000, \$1 Million so there are really, beside those two REITs which has its own set of complexities and idiosyncrasies, there hasn't been a way for someone to invest into farmland in a custom way with a low minimum.

At FarmTogether, our minimum is oftentimes \$10,000/\$15,000, we are looking in the future to make this accessible to everyone where your minimum check size could be as low as a dollar. It just takes time, you know, there's a lot of organizational/administrative complexity and so that's part of the reason why this asset class really hasn't been on anyone's radar for a long time.

Peter: Right, right, interesting. So then, let's just step back and talk about how the process works. Can you explain the mechanics of how investors are able to invest in farmland through FarmTogether?

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Artem: So, it's very simple. You go to our website, [farmtogether.com](http://farmtogether.com) and straightaway we have a lot of educational materials that are easy to digest, easy to understand. Both materials talk about the asset class, how the investments work, historical performance, you can take a look at past deals, you can take a look at past webinars, listen to podcasts such as this one because we really think that part of our job is to educate people and do it in an accessible way and that's a lot of the resources are put into that at FarmTogether.

Once you register, you then get on an email list where we announce every new deal. A lot of deals are sold out very quickly so we are looking to bring more deals to the platform, bring larger deals. That's been a bit of a challenge because recently, the deals sold out so quickly, people don't have time to actually read through the materials so we're working on that. When the deals are launched, we will do a webinar, we'll have time for Q&A, you have time to view the materials, we changed the process, and once you're ready, you have to pass accreditation. Right now, unfortunately, we can only accept accredited investors, these are people with income of \$200,00/\$300,000 or net worth of at least \$1 Million.

After you are accredited, you go through the document signing process, everything is done online, you can complete it in a matter of minutes and then you can either wire or ACH your funds. So, really we try to make it very easy to invest. Peter, before we started the recording we were talking about AltoIRA an IRA provider, you can invest through a lot of different IRAs as well. You can invest through a trust, you can invest as a joint investor with your partner, your spouse so there's a lot of different structures which you can invest.

There are certain kinds of benefits that FarmTogether provides so people really try not just to invest as an individual, but look for tax optimization strategies as well and we accommodate all of that. Once you invest, your investment will be seen in your portfolio, in your overview page, you will receive quarterly updates electronically, you can always ask us questions, really we try to make it....so that if you don't want to you never have to talk to us ever again (Peter laughs), but if you want to, there is information and materials available to you on the website in an accessible format.

Peter: Right, yeah. I should also tell the listeners. I actually....I have an AltoIRA account and I have invested in two deals with FarmTogether so I have had this process firsthand. I just want to close the loop on that, does FarmTogether purchase the farm first and you do the deal. I know you create like a new LLC with each deal, how does that process work acquiring the farmland?

Artem: You are correct. Each deal is put into it's own Delaware LLC. The LLC has a management agreement with FarmTogether and the LLC, from an administrative perspective, is managed by a third party called Assure that prepares K-1s, sort of takes care of the admin side of things and so this is what we call a Bankruptcy Remote Structure. Now, FarmTogether is well capitalized by owning revenue, we're going to be bound for a long time, this is just an additional way of safety that you can take comfort in knowing that every farm is it's own entity.

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And the way it works from a purchase perspective is that FarmTogether enters into an escrow agreement with the seller. Typically, we have 45 to 90 days to complete the diligence and gather the capital. So, we put the package together, put it on the website and collect the capital during that escrow period. So far, we have closed every deal except one that we put on the platform and the only reason we did not close that deal was because due diligence did not pan out so it's rare, but it happens, that's what you do due diligence for.

But, generally as I mentioned, deals syndicate very quickly and so we don't have a need, like some other platforms, to have this warehouse facility to be buying the farms. What it means is that we don't have to charge our investors as much in the way of fees because we don't carry the cost of that warehouse facility.

Peter: Right, right. So, you acquire the farm, the investors acquire the farm through the LLC, what's the expected hold time, I mean, like farms can obviously.....some of them are held for generations, but what is the expected hold time for the property?

Artem: I would say that holding farms for generations is probably the best way to invest in farms, but I know that most people have shorter time horizons. So, most of our deals are a 10-year hold. Having said that, we are working on a liquid secondary market that you could trade in and out of your farm maybe every year, every quarter. We have facilitated a couple of secondary deals already where people were able to exit the investments in the farm so we're working on the full broker/dealer license long term, ATS license, to be able to do this in a massive and accessible to everyone manner.

Peter: And so, do you have different criteria for a farm that you'll acquire, I mean, I've seen a lot of the ones come on to your platform, but typically, it seems like, you're focusing on high value crops like citrus or almonds and that sort of thing. I mean, what is it that.....I haven't seen, maybe you do have, but I haven't seen like dairy, cattle or something like that, what else are the criteria that you're using?

Artem: In farmland, you have broadly three types of land or three types of farming. You have, I guess, four so you would have dairy, you would have cropland growing crops like the ones in my background, corn, soy beans, wheat as well as permanent crops, citrus; you have pastureland which is land that makes money by renting it out for grazing the cattle and then you have cattle raising where it's growing animals for meat.

We only focus on crops and that is because one, it is a huge market, our estimates are \$1.5/\$1.7 Trillion out of the \$2.5 Trillion in the United States. It's also crops that have also the type of farming that has one of the highest returns especially if you know what you're doing and we do, our team comes from very institutional backgrounds in permanent crop investing and,

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lastly, it's just the side of farming that has the best rewards. So, dairy, right now, has a lot of challenges with oversupply.

Peter: Right.

Artem: Grazing land and pasture lands as well as cattle has issues with supply, also I think some headwinds from people who are switching more and more from meat-based diets like red meat to chicken or to vegetable proteins. It's such a huge space that you have to kind of pick what you're good at and we're playing in a huge \$1.7 Trillion market so kind of going to stick there for a while. But, long term, absolutely, I mean, FarmTogether will definitely do all of those things, just picking the right age and time when to do it.

Peter: Right, right, okay. And so, most of these crops, I presume, are, you know, they harvest once a year, how do the cash flows work to investors when harvest happens and ....like, obviously, it's a 10-year hold, you know, you'll get your principal back after ten years, hopefully, with appreciation expected obviously, but what about....how's the cash flow?

Artem: You are correct. The cash flow comes from the harvest or from rent so there's two types of deals that we broker and put together. There's one where the land is rented out by the farmer and you receive some sort of rent, maybe some sort of revenue share, but you don't have as much exposure to the farming business itself, to what happens with the crop prices and those are typically low risk, low-return type investments. On the other spectrum, you have a direct operated farm where we will contract with the farmer, we'll operate it and receive a payment for the operations, but will not take any risk on what happens to the, you know, the harvest and you take in all the risk. In those cases, the profit of the farm that comes from the harvest is what drives the dividend that year. And so, those, typically, are more volatile, but on average will be expected to yield higher returns versus the type one investment.

Peter: I presume you have like insurance because, I mean, obviously, being in farmland anything can happen with the weather particularly these days, how are you protecting investors?

Artem: Yes. We take out all the insurance that is valuable and that makes sense from a business perspective.

Peter: Right, right, okay. So then, \$1.7 Trillion market and I imagine there's farms coming on up for sale all the time, how do you approach the underwriting process. What do you look for that will.....what causes you to sort of say no to a deal and what causes you to say yes?

Artem: There's a lot that goes into it.

Peter: Right. (laughs)

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Artem: So, let me run you through it. We start with selecting the end markets that we think have structural advantages, first of all being in the United States because that's where our farms are and that have long-term tailwinds. Most nuts have excellent tailwinds, you have this mega trend of snacking they're healthy, people switching more and more to plant-based diets and the supply is constrained. It is hard to add additional supply, it takes years to grow trees, climate is very important like almonds really only grow in California, in Central Valley, in the kind of almond valley like Merced County, Sacramento so the east, northeast part of California, we select for that.

Then we look at the geographies that makes sense for those particular crops and oftentimes, California is the place to be even with all the news right now about the drought, California goes through droughts all the time. We underwrite for that and that takes me to the next point. Water is very important so a lot of farms you have to underwrite for water, we do that really well.

After that, you analyze the farm at the local level, this will be everything from soil to leaf to the presence of the local ecosystem enabling farming such as suppliers, workers, things like that, infrastructure since really we have almost a 100-point checklist that we go through on every farm. It's quite a process and a lot of our technology.....FarmTogether is a technological company, it's actually built around that. It's increasing the speed and quality of finding, underwriting, buying and managing a farm.

Peter: Interesting, interesting. Can you say more about that like I imagine there's all kinds of data sources out there, what specifically are you doing to applying tech to underwriting?

Artem: That is critical in unlocking this market and in bringing capital to farmers and that is because, we go back to what I said initially about the market, it is a very fragmented market and a very opaque market. So, the other reason this asset class hasn't really been accessible yet is because most of existing farms lack funds, they just don't really set up to access what is a very fragmented market.

If you think about a traditional farm, once they hit a couple of billion.... now they really have to invest in farms that are \$100 Million plus in size because, otherwise, it just doesn't move the needle for them and that shuts out most of the market. What we can do \$5 million farms all day long because we are building the tech that allows us to do that. So, the tech is as follows, it is satellite data, it is aerial imagery, it is own farm data from these emerging agtech, sensors, weather sensors, it's the remote management capability because there's bad and better Internet StarLink is up and running, broadband that's being introduced to farms to be able to do things more remotely and it's also collecting virtually from hundreds of data sources information about the land because it also differs by county.

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Very fragmented information of data sets and there'll be things like scanning through documents and meeting minutes of the local water boards and water districts, it'll be collecting local information from the county, it'll be literally sometimes going to the library or going to the local record keepers to scan documents. So, we're creating also a proprietary data asset that will allow us to get better and better with every farm and that's where, I think, we need the flywheel for FarmTogether as the business starts turning. The more farms we invest in, the more information we collect, the better we get.

If we do almond farm no. 50, you can imagine that I think we'll know much and be able to move much quicker and provide better value added insights to the farmers, to the operators to perform better on the farms. There's a lot of advantage to having this business model that allows us to do a lot of deals aimed at different investors in different markets quickly.

Peter: Right, right. And what about, like do you have sort of a filter for organic versus non-organic, does that even matter? I imagine a lot of the organic farms are pretty small, but how do you kind of land on that spectrum?

Artem: It definitely matters. So, the mission of FarmTogether, really why people should care about why we exist, is that we want to bring transformative, creative capital to farmers because we need to transition our agriculture to sustainability and we also need to increase the yields because the biggest problem that we face....because the planet is that by 2050, we won't be able to feed the populace. We either need to clear or add more land to farmers that will be the size of India, almost 1.5 billion acres and by the way, the US has only 900 million acres.

At today's trajectory, the yield improvement is not enough to feed the population, it's not enough so we need to move to organic, to sustainable agriculture as a planet, that is kind of the big mission. Of course, FarmTogether is not the only one doing this, but we view part of our mission to bring capital to farmers. So, we absolutely filter as much as we can for organic, for sustainable, they're not one-to-one, they're not interchangeable, but they all move the needle so as much as possible, we try to do those value added deals quickly so that's absolutely a filter, Peter.

Peter: Okay, okay. And then when you're sourcing these deals, what's the cadence of adding new deals onto your platform and, as you mentioned, I know they fill up very quickly in the investor side, I've seen that myself first hand, so what's the cadence there that you're trying to....do you have now or what are you trying to get to?

Artem: We used to have a deal a month, now we're getting a deal every two weeks and then we'd like to get a deal every week as well as maybe having multiple deals on the platform. At the same time, we don't want to compromise our underwriting and so it is either, especially as we grow there's a lot of investors that want farmland and we, of course, start with the best

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possible deals and then we keep going down, down, down. As you know, a good investment, a big function of that especially real estate, is the price.

Peter: Right.

Artem: So, I think what we'll see as we bring more investors to the platform is that it will be good farms from a farming perspective, but as we grow the returns will have to come down a little bit to target returns because I think farmland is an excellent diversifier, it can protect against inflation, but you cannot always have deals that are 15% IRR.

Typically, our deals are 9 to 11% and so we'll have to kind of come down to a little bit more in line with real estate with some other safer investments because, as you know, we printed out trillions of dollars of money in the last 12 month. That capital needs to go somewhere, it's flowing into more assets, assets are all geared up, bubbles are inflating like the one crypto that just burst and farmland, I think, still hasn't seen that inflow of capital.

Peter: Right, right. So then, what are your growth constraints right now? Are you more constrained by finding new deals or investor capital, what's holding you back?

Artem: It's the deals. So, investing, we hired just recently more people in the investment side, we're creating more and more partnerships with farmers and we are also expanding the type of deals that we're able to do because really from a farmer perspective, from the society perspective, our reason to exist is to bring creative capital to farming which doesn't always have to be buy a farm outright, it can be something else.

Peter: Right, right, right, that makes sense. So then, what's your business model and how are you actually making money on this?

Artem: It's pretty simple. We charge management fees every year and then we charge at closing a one-time fee and then we are trying to introduce performance-based fees as well.

Peter: Right. Have you done performance-based fees yet?

Artem: We had on the last yield, we had a performance-based fee.

Peter: Okay. So then, can you give us some sense of the scale like how many deals have you done to date?

Artem: We don't disclose that fully, but I can tell you that I think we are approaching a couple of dozen now.

Peter: Right.

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Artem: In terms of total amount of deals, we're approaching \$100 Million.

Peter: Okay. What about on the equity side your business like how have you been able to raise money? Tell us about that process in trying to get the capital for your company established.

Artem: So, we are venture-backed, our main backers include Blue Seed Collective in New York, Franklin Templeton. We also have some really great former founders, people who exited their business that helped us and we have angels from TAG, AG, finance real estate, really a load of people that I think know the space well. We have a pretty good venture backers and that's how we've been financed to date.

Peter: Right, right. You're not profitable yet, I take it, right

Artem: Profitability is an interesting question. I would say that we are...I call it cautiously profitable so if we were to not invest into heavy R&D, into growth that will only payoff in two/three years then we could be profitable today, but we are choosing to invest that, that is what venture capital is for...growth because the problems that we're facing are important that they be faced today. So, we would rather take on some capital now and pay with future growth versus go at a slower pace.

Peter: Right, right. Okay, so last question then, what are you working on now like how do you see the company evolving over the next year or two?

Artem: We plan to introduce at least a pilot of a secondary market, we plan to add more farms in other geographies and crops, we plan to add more tools for investors to oversee the investments, just make it really easy to integrate with whatever tools you're using to manage your total investment portfolio. We already have and are implementing ESG compliance, this is a standard called Leading Harvest that is a sustainability standard for farms. I think those are the major initiatives over the next 12 months.

Peter: Okay. Well, we'll have to leave it there, Artem, it's been great chatting with you today. Best of luck, I do think you have a noble mission there and I think it's something that investors are going to be very interested in. It's a great diversifier, that's what I go into, it's a great diversifier for a portfolio.

Artem: Thank you, Peter.

Peter: Best of luck.

Artem: Thank you.

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Peter: It's really curious to me that an asset class the size of farmland, it's way bigger than say personal loans, bigger than small business loans, it's bigger than most asset classes and yet there has not been an easy way for investors to get access to this really until now and I really like what FarmTogether has done.

As I said, I have invested myself, I like the diversification that it provides, I think it is great wrapping it into an IRA which is what I do, I'm making it grow tax free. It's obviously a long term investment, I mean, I think people who get into it should be willing to hold this for ten plus years. That's certainly how I view it and I see many more investors...really, we all should be having some exposure to this huge asset class I think if you want to have a truly diversified portfolio.

Anyway on that note, I will sign off. I very much appreciate you listening and I'll catch you next time. Bye,

Before we go, I want to remind you about the brand new event from LendIt Fintech. Fintech Nexus, the Dealmaker Summit will be the first major in-person fintech event of the past 18 months. A hand-curated audience of venture capitalists, bankers, fintechs and debt investors will be meeting face-to-face at an event 100% focused on doing deals. It will be happening in Miami on September 1st and 2nd, you can apply to join and find out more at [lendit.com](http://lendit.com)

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