THE WALL STREET TRANSCRIPT
Connecting Market Leaders with Investors

Farmland Partners Inc. (NYSE:FPI)

PAUL PITTMAN has served as the Executive Chairman and Chief Executive Officer of Farmland Partners Inc. since its initial public offering in April 2014. Since 2008, Mr. Pittman also has been the president of American Agriculture Corporation and Pittman Hough Farms LLC. From 2007–2008, Mr. Pittman served as Chief Financial Officer, Chief Administrative Officer and Executive Vice President of Jazz Technologies, Inc., a semiconductor foundry. From 2004-2006, he was Partner and Head of Mergers & Acquisitions at ThinkEquity Partners LLC. From 2000-2003, he was President, Chief Executive Officer and Chief Operating Officer of HomeSphere, Inc., an enterprise software company, and TheJobsite.com, which merged into HomeSphere. From 1997-2000, Mr. Pittman was Head of Emerging Markets M&A at Merrill Lynch in London, where he was responsible for origination and execution of all M&A business in Eastern Europe, the Middle East, the former Soviet Union, and Africa. He graduated from the University of Illinois with a B.S. degree in Agriculture, received a Master's in Public Policy from Harvard University, and a J.D. with Honors from the University of Chicago Law School.

SECTOR — REAL ESTATE

TWST: It's been seven years or so since you last spoke with The Wall Street Transcript. Could you remind readers of your origins and history?

Mr. Pittman: Sure. I'm an unusual combination of a farm guy and a finance guy. I grew up in Central Illinois. I have an agriculture degree from the University of Illinois way back in 1985. When I graduated, as you may or may not know, that was the absolute bottom of the U.S. farm economy in probably the last 50 or more years. The original Farm Aid concert was in 1985, to give you a context and example of how bad things were. When I came out of school, I couldn't go back to my kind of extended family's farming operation. There was just no more room for any additional people. Luckily, I had very good grades and I had been involved in a lot of student leadership positions at the University of Illinois. I got an opportunity to go to Harvard to the Kennedy School of Government, which I did. And then, I went on to University of Chicago Law School.

I had a relatively varied law and finance career, ultimately doing buyout of a technology company with a couple of well-known tech executives. I was the finance guy. And those executives were Steve Wozniak, who was the co-founder of Apple and another very successful and talented guy named Gil Amelio, who had been the chief executive of Apple briefly, and of National Semiconductor. So I had this sort of 15-year career of high finance.

I took the capital that I made during that era and started buying farms in the mid-1990s. It was in my blood. It was in my history. Eventually that grew into what was a large personal portfolio of farmland that my wife and I owned. We took that farmland public in this company in 2014, when we had $70 million in assets. Today, we have at current market value, probably $1.3 billion or $1.4 billion of assets.

TWST: Let's talk about the overall strategy as a company. REITs are plentiful in many areas of real estate like industrial, multifamily, medical, retail, office, and so on. Farming isn't usually one of the regular choices. How would you compare and contrast the approach you're taking versus more common routes that REITs go?

Mr. Pittman: At Farmland Partners, we start by looking at the asset class itself, meaning farmland. And then being a REIT is just a certain vehicle, a certain structure that we believe is favorable to investors in terms of its tax efficiency and a variety of other things. But the core of what we do is that we have recognized that farmland ownership — not farming, but farmland ownership — is a very, very secure long-term business.

It is a total-return asset class. What I mean by that is it's an asset class with relatively low current yields. About one-third of your total return comes from rents and two-thirds from appreciation. But a lot of people don't realize how strong and relatively stable the asset class is. In simplest terms, the reason the asset class is so stable over long periods of time is that it's all about food, right?

Food consumption gradually increases on a worldwide basis, a story that's frankly been going on for centuries, probably going on for at least that long into the future. Every day, population gradually grows, and high-quality farmland gets a little scarcer every year. Think of your own local

community and places that used to be farms but now are now shopping malls or housing developments or schools or whatever it is. This asset class is going to always be in a position of modest but continuous appreciation.

To give you a couple of statistics, the 50-year history in farmland is about a 5.5% to 6% compounded annual appreciation. That's a really, really big number over time. When you take that appreciation plus the approximately 4% or so current yield on the properties, you would find out that farmland often beats the New York Stock Exchange in total return over any kind of medium-term holding period like three or five or seven years. At the end of the day, it's all about investing in gradual global food demand increases in the face of continuing land scarcity.

That's the strategy and it's been a successful one for me personally over 25 plus years. And it's been a successful strategy, frankly, for investors in our public company in the last seven or eight years.

TWST: What you're saying is scarcity will continue to increase. And because food needs continue to increase, value will continue to increase.

Mr. Pittman: Absolutely. It's really that simple. And it's a very good hard asset. From an inflation protection perspective, I frankly think it's as good if not better than gold. I think of it as gold with a coupon. That's what farmland is. And then, a lot of investors focus on the asset class itself being essentially non-correlated with other financial assets. Now, since the company is listed publicly, we're obviously a little bit correlated, because everything on the New York Stock Exchange is correlated with everything else on the exchange. But farmland itself has a tendency to be strongest in times when the rest of the economy may be struggling.

TWST: And because you're a REIT, the money coming in, it gets distributed. It's not like you're necessarily looking for appreciation of the REIT stock as much as the cash flow if you're investing, correct?

Mr. Pittman: A lot of investors are very cash flow focused, and obviously the legal fees we incurred to fight this behavior hurt our ability to distribute. We in fact had to cut our dividend to pay the legal fees to have this fight. But, look, that's not a battle we picked, but it's a battle we had to win, and we did. Last summer, about a year ago now, the perpetrator, operating under a pseudonym, publicly published essentially an apology and an admission that everything he had said in that article or nearly everything in that article was false and untrue. He admitted that he had been paid by a hedge fund to do it. He admitted he had done it to several other companies, also paid for by the same hedge fund. That cleared the air in a significant way.

But when your stock drops 40% in one day, you also will get sued by a class action lawyer and some shareholders. We had to fight that class action lawsuit. It was only about three or four weeks ago when the class action was dismissed on summary judgment with prejudice. A federal judge determined that no reasonable jury could ever determine that FPI had violated the law. We're happy about all of that. It's been a long road. It's really unfortunate that our legal system works so slowly and lets people get away with things like this. But, like I said, it hurt the stock for a period of time, but it didn't hurt the assets or the shareholders who stayed with the company. Me included, as I'm the second largest shareholder in the company still today.

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TWST: Which certainly seems to be the increasing direction of the economy at the moment. But about farmland having better returns than, say, the S&P 500, something in your 2021 10-K seemed to show that your returns were significantly behind both the S&P 500 and the Dow Jones Equity All REIT Index. Can you reconcile those two?

Mr. Pittman: Absolutely. Partly, it's about timing and what's your measurement period. Over the long holding periods, farmland has equaled or beaten the S&P 500. As it relates to our particular company in shorter holding periods though, there's a couple of different things going on, the most important of which is that we were the subject of a truly illegal act in my opinion in the summer of 2018. A hedge fund paid a reporter to anonymously write an article that said the company was insolvent and the leaders of the company, I and others, were corrupt and dirty and essentially running a Ponzi scheme.

This is completely untrue. And we have won this in litigation. But it took the stock down 40% in one day, and we spent millions of dollars and half of a decade of our life getting our reputation back. At the same time, the actual underlying assets that we owned just kept appreciating and getting stronger. It hurt our stock price, but it didn't hurt our underlying assets. This is fundamentally why we survived. At the end of the day, the real business we had, which is owning farms and renting them to farm families and collecting rents, was getting stronger and stronger every year, despite this cloud put on top of us hurting the stock price.

It took a while, but it's all worked out handsomely. And we're trading at good stock prices now and growing aggressively. It just shows you have to believe in your vision and stay at it.

TWST: Your stock is just shy of $15. That's basically a high-water point for you since you went public back in 2014 at $13.45.

Mr. Pittman: Farmland Partners went public right before the farm economy went into about a six-year slow period. We didn't know this at the time or we might have done something different. Corn prices, soybean prices, key commodity prices really dropped between March of 2014 and, say, the fourth of July in 2014. As a new public company that was, frankly, small, we had to struggle against that. We did a couple of follow-on offerings at prices lower than our original IPO. Our IPO was at $14. And then we did some $12.50 range offerings, a couple of different ones — now, it's eight years ago, so I can't remember exactly the price or what are exactly the dates, but we did that.

In hindsight, we were certainly right. You've got to achieve a certain level of scale to succeed as a public company. I was, at that time, the largest shareholder in the company. I certainly hated doing dilutive offerings, but they had to be done because if you didn't do them, you had an overhead structure that was eating away at your value literally every day. And so we got the company up to the scale we needed to get it to as rapidly as we could. And then, we slowed down on capital raising.

But it's all working out now. Frankly, it would have worked out more quickly and better if we hadn't spent millions of dollars beyond our insurance coverage fighting these lawsuits. It's really troubling. What those false attacks do to a small public company is shocking.

TWST: Have you been able to recover any of that from the hedge fund?

Mr. Pittman: The author paid us multiple of his profits. He will continue to pay us for the foreseeable future on a long-term repayment strategy or settlement. But we are still pursuing the actual hedge fund who was behind all of this. And we think we'll get a further recovery. Like I said, it's shocking that the law enforcement organizations surrounding the markets aren't harder on this behavior.

We're not talking about shorting. We're not against shorting. We're against market manipulation. If you ask any investor, should it be fair to buy a bunch of put options on a company and then falsely create a fire in a crowded theater, so to speak, by saying a bunch of lies about a company that are demonstrably false when you say them? I mean, they said we were insolvent in the headline of the article. We weren't insolvent. We had $1.3 billion of farmland and $500 million of debt. You're not insolvent when you have that kind of balance sheet. We had $20 million, $30 million of cash on the balance sheet. The law enforcement organizations really need to get after it because to a small company, it can be deadly.

TWST: Brutal.

Mr. Pittman: To be honest, if we had been a biotech company or a company that didn't own hard assets, it would have put us out of business. And the reason we survived it is because we own plain boring farmland. The farmland itself wasn't hurt by the accusations. But if we had been a company that had to go back to the capital markets to raise money, to stay alive, to fund reserves or whatever we're doing, we would have been done. They are hurting companies. But more importantly, they're hurting the citizens of the country. Somebody needs to get after them.

The popular perception that the farmers are always on the brink of failure just isn't really true. As you can see in our financials, we just don't have open properties at all, and we just don't have very much bad debt. The farm economy has its ups and downs like any business, but something really important is that we are dependent for our rents on long-term farmer success.

Unlike virtually any other business out there, the product the farmer produces is always in demand and that demand is always going up. If you're a U.S. family and you're having a bad year, you might not buy a new car, you might not buy new furniture, you might not even buy a new house, but you're still eating. That doesn't change. So the stability of farmers' long-term profitability is really, really very high.

For example, bankruptcy statistics for farmers even in bad times are very, very low compared to any other industry. And it's really just about what I said. I don't mean for a second that farming isn't a challenging and difficult life. You've got weather and hard work and all the rest. But these folks do a great job producing what they produce. They do it with a lot of financial stability over time. And it's really coming from the fact that a basic human need is food, so the demand is always really there and gradually rising.

TWST: How have the pandemic and inflation been affecting things for you?

Mr. Pittman: Inflation is causing farmland values to go up very, very rapidly. It's been a very strong appreciation year that will continue in my opinion as long as inflation is high. As I alluded to a few minutes ago, farmland — and it would be true of a ground lease underneath an urban building – is raw land, which is a very, very good hedge against inflation.

As far as the pandemic goes, it has created some challenges in terms of the export markets and how to move the foodstuffs around to the appropriate markets. But the reality is that total food consumption didn't change very much in the pandemic, although the balance of where people consumed that food, meaning restaurant versus home, did change. But total consumption really didn't change very much. When you think about it in common sense terms, you would expect people to continue to eat right through the pandemic.

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TWST: You've spoken about some of the advantages of farmland, farm-based lens investments. How about potential risks? Because you depend on farmers being able to pay the rents and that's not necessarily an easy thing to do with the way prices go.

Mr. Pittman: A couple things about the asset class. Again, I have an ag degree. I farmed myself. I farmed about 13,000 acres for a while. I understand this market both in a macro sense, but in a micro sense, pretty well. First thing you need to understand is that this asset class has zero vacancy. There's no farm that's not leased and renting in any given year. The second thing that's very important to understand is that the bad debt in our portfolio or for anyone who manages farmland is exceedingly low. We occasionally have a bad debt problem, but it's a tiny percentage compared to other asset classes.

The reason for that is that the rent structure in most leases is that you collect around 50% of the rent from the farmer for the year in February. So if half the total rent for the year is, say, $100, you're going to take $50 in the February, and then you will have a first lien security interest in the growing crop under the state law of most ag states for your second half rent, which will be paid at harvest, approximately November.

Farmers have had an OK time, better than many other industries, frankly. And to the farmers' credit, while lots of people were staying at home, these farmers got up every day and did their job, and went out and produced food. The farmers and the truckers kept those grocery stores full, something the industry should be pretty proud of, and we're proud in a small way to support it.

TWST: Let's talk about further expansion. What are your strategies going forward? The positive aspect about the value of farmland increasing also brings the negative aspect that it gets more expensive to buy land. And then you also have all the other people, all the other companies, investment funds, looking to figure out how can we get ahead. A lot of money's been going into commercial real estate. I don't know how much goes into farmland, but I'm guessing that's also a factor pushing prices up even more. How does that affect your future?

Mr. Pittman: There are a couple things that are very different about farmland and other sorts of real estate asset classes. Only around 2% or 3% of U.S. farmland is owned by an institution of any type. That's a tiny, tiny percentage. This is a very, very big market. It's an immense total market, about $30 billion of farm transactions every year in the U.S. The market is fundamentally driven by farmers first, and by people with rural roots who don't actually farm.

Think of a small town. Financially successful people will also buy a lot of farmland, and then way out at the end of the tail is this tiny little amount of institutional buying. The opportunity for an institution like us to continue to expand our land base is quite good. If an auction of farmland goes at a really high price, we're not likely to be the buyer, it'll be a local farmer. That actually makes sense because the economics of the local farmer are different than ours, because he can efficiently expand his business and geography next door to where he already is.

But we are constantly looking for additional farms. We have about 120 or so farmers that we already work with across the country. They bring us great ideas all the time. Frankly, they have capital by themselves, but they don't always have capital available for adding land. And so we've got a huge pipeline of opportunities as measured in the hundreds of millions of dollars at any point in time. So we'll continue to expand.

We are disciplined though. Whenever we go and find a farm, we say to ourselves, what's the current yield, what's the long-term appreciation prospects, how is this price compared to the comparables? And then finally, do we have other uses of our cash like reducing debt or something else inside the company that has a better return balancing all those factors than buying a new farm?

But we think you'll see our company grow over the coming years. We are long-term believers in where our farmland values are going. I've been doing this, like I said, for 25 or 30 years now, both privately and in the public market format. We've had a really long-term bullish outlook on farmland.

One of our board members and a colleague of mine is a gentleman named Murray Wise. He founded a company called Westchester, which he eventually sold to an entity — essentially to Nuveen. Murray's been doing this for approaching 50 years. He is really the father of institutional farmland investing in my opinion. And both of us have this very strong long-term outlook.

That does not mean that every single year will be good. Though what it does mean is probably eight out of 10 years, if not more, will be good. Investing is not about getting it perfectly right every time. It's about getting it mostly right over and over and over again. The history supports us, our track record supports us and our future outlook, we're comfortable, that'll continue happening.

TWST: According to your annual report, about 70% of your portfolio grows primary crops like corn, soy, wheat, rice and cotton. Are you looking to diversify? And if you expand, are you sticking with that? Or are there other areas you're looking at that you think might offer additional types of value like, I know, you've done some work in solar, correct?

Mr. Pittman: Yes. So first, I think some investors think of us as focusing only on the primary crops, the corn, soybeans, the wheat, the rice. That is true, but it's not because we only believe in those crops. It's true because what we believe is that the right way to invest in farmland is to build a diversified nationwide portfolio that roughly reflects total U.S. output of the various agriculture commodities. And you want to get this portfolio that roughly reflects U.S. production of these different commodities.

TWST: It's almost like having a farm index fund.

Mr. Pittman: Exactly. We want to say if the biggest crop in the country is corn, we own more corn ground than anything else. And if the second biggest crop is soybeans, the second most amount of land we own is soybeans. That's how our portfolio is organized. If 30% of U.S. agriculture is focused on almonds and citrus and pistachios, you want 30% of your portfolio focused on those specialty crops. This is about building a portfolio that connects investors to that long-term global food demand increase, and in a diversified nationwide way. So that approximate balance of, call it 70/30, 75/25, whatever it is on a given day, of the specialty crops versus the more traditional row crops, we're likely to stay in that zone over time.

We are very, very diverse. I think we have 26 separate crops in I think 19 separate states. If a farm economy in the United States is strong and successful over the long term, we will be strong and successful over the long term. It is because we are a primary input to that farm economy in the form of land ownership.

Our opinion is it is very hard to create a scenario in which food production as an industry isn't one of the strongest and most successful industries in this country. It has been for literally a century or more. And there's no reason to believe that won't continue.

The other thing, our portfolio is U.S only at this point and likely to stay that way, although we would certainly look at Canada or Australia. But we only want to make farmland investments in places with a very secure property law regime because when you're making long-term investments in a low-current-yield asset, you do not want to stack on top of that, all the country risk and currency risk that comes with investing in far less stable political environments.

TWST: Thank you. (EBS)

PAUL PITTMAN
Executive Chairman & CEO
Farmland Partners Inc.
4600 South Syracuse Street
Suite 1450
Denver, CO 80237
(720) 452-3100
(720) 398-3238 — FAX
www.farmlandpartners.com
email: ir@farmlandpartners.com

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Tel: (212) 952-7400 • www.twst.com