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Understanding agribusiness enables AgriCap to better service industry

By Rand Green

AgriCap Financial Corp. in Los Angeles was founded about six years ago by two finance veterans to provide financial services to agricultural enterprises — a business sector that banks and other lending institutions often shy away from, according to Rick Jones, president of AgriCap.

“Many lenders consider agriculture too risky,” he said.

So why has AgriCap been successful in a field perceived as too risky by many competitors? “In a nutshell, we understand the industry well, so we are better at it,” he said.

“Agriculture has its risks, which everybody understands,” he acknowledged. Factors such as seasonality, weather and supply-and-demand shifts contribute to those risks.

But at AgriCap, “we do not penalize good performing at companies just because they are in an industry that has some risk to it.”

The company does not finance every agricultural enterprise that comes along. “But we know the industry well enough,” Mr. Jones said. “We have studied it. We understand how the industry works,

what the costs are. We understand how PACA works. Because of that, we are able to appropriately structure financing and do deals that banks could, perhaps, do but just aren’t interested in because they don’t understand the business that well.”

The founders and principals of AgriCap are Mr. Jones and Richard Kostkas, the company’s chief executive officer. Mr. Jones has 20 years of experience with banks and finance companies such as GE Capital, the Bank of Boston, the Bank of America and GMAC Financial Services. Mr. Kostkas has a background in finance as well, “on the real estate side,” said Mr. Jones. Mr. Kostkas is also a co-founder of the iTradeNetwork, a major produce procurement platform.

“Originally, we were looking at doing reverse factoring for transactions on the iTradeNetwork,” he said. “Then, as we began raising capital and exploring the marketplace, we saw that there was a real need in the ag industry to provide direct financing to the companies involved in agriculture, the reason being that a lot of traditional lenders ... are not really

interested in lending to the industry. They perceive it as a very risky industry. So we saw this big opportunity to help the industry by providing working capital financing to companies trading produce.”

The enterprise enjoyed “immediate success,” he said, “so [we] started growing the company. After a few years, we found that in addition to business working capital, there was also this need for real estate financing, so we started doing real estate financing for ag enterprises — farmland as well as packingsheds and coolers.”

Occasionally, the company has also done crop financing secured by real estate, he said.

“The other thing we have done in the last couple of years is we have begun doing financing for importers of produce,” he said. That is a business sector that is expanding as farmland in such growing areas as California and Florida has been increasingly converted to residential and commercial developments.

“There is a need for Latin America to continue to grow its production

to feed the United States marketplace,” he said. “So we are involved in doing trade financing for agricultural products,” primarily produce, “that are being [exported] to the United States and usually being sold through distribution companies and retailers.”

AgriCap’s core compe-

Los Angeles-based company welcomes business that other firms turn away.

tenacy, Mr. Jones said, is analyzing the working capital needs of agricultural enterprises and “building a plan to help those companies finance their operations,” whether it is financing a cooler expansion, financing picking and packing operations, or providing year-round cash flow to a company “that has seasonal working capital spikes.”

Sometimes, AgriCap is able to “put two clients together to help them jointly work on projects,” he said. For example, “we might have a client in the United States who is an importer, who needs melons to supply a major retailer during the season.” AgriCap may be able

to link that importer with a client in Latin America who grows melons and help both companies by financing the transaction.

On occasions, an agribusiness enterprise might find that, through no fault of its own, it has lost its existing financing because its bank has been acquired by a larger bank that wants to divest its agricultural portfolio. Companies in that situation “find, when they go out and look for financing, there aren’t a lot of companies out there that are interested in bringing in ag-dependent loans,” Mr. Jones said.

In a number of instances, AgriCap has “stepped in” to refinance an existing bank loan “when for whatever reason the bank is no longer interested in lending to the company.”

AgriCap has also financed some “turn-around situations” such as providing the new financing needed for a company reorganizing its business under bankruptcy.

“We are basically a multi-dimensional finance company,” Mr. Jones said. “We specialize in the ag industry. We understand it. We love the business. We like the people that are in it.”

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The Ag Industry's Lender