Performance Report
Q1 2018

A member of the Musasa cooperative in Rwanda dries coffee in the sun.

root capital

OVERVIEW

Through the first quarter of 2018, Root Capital reached 165 businesses that connected 532,000 smallholder farmers to markets, over 230,000 of whom are women. These businesses in turn generated $752 million in revenue, over 80% of which will be paid directly to producers. These results are despite the fact that disbursements and loan portfolio balance for the quarter were lower than expected due to challenges with the Central American coffee harvest.

In the face of challenging market conditions, businesses are still finding ways to invest in the future. Businesses like [The Village Nut Company], a macadamia nut producer in Kenya, focus on providing opportunities to the next generation of agricultural entrepreneurs through employment and mentorship. You can read more about this family-owned business in our client profile at the end of this report.

Portfolio Performance and Impact

In Q1 2018, our average outstanding portfolio balance was $63.3 million, a 28 percent decline over this time last year ($87.7 million). Loans to coffee businesses continued to represent more than half of our average portfolio balance at $34.7 million (55 percent), which was followed by loans to processed nuts businesses at $5.8 million (9 percent) and loans to cocoa businesses at $5.3 million (8 percent). In the first quarter, disbursements totaled $26.9 million, 38 percent lower than this time last year ($43.3 million). Sixty-nine percent of loans in the portfolio were additional, meaning Root Capital filled credit needs unmet by commercial lenders.

Root Capital lending volume was lower than anticipated due to a confluence of factors that negatively impacted the Central American coffee harvest, which historically peaks during the first quarter of the year. There continues to be increased competition from other lenders and a consolidation in the global coffee market, with large market acquisition activity that is impacting coffee prices and buying patterns in the coffee supply chain. The average coffee price was down 15 percent year over year, compounded by decreased crop yields in Nicaragua, due to increased temperature and high rainfall, and in Honduras, due to a shortage of labor. After the presidential election in Honduras in November 2017, claims of electoral fraud led to escalating protests that were met with government-mandated curfews across the country. As a result, underwriting and loan closings with Honduran clients were delayed throughout the first quarter.

In addition, we continued to take a more conservative approach to portfolio risk, with more prudent underwriting and lower single-borrower exposures on loans, which in certain cases led to smaller loan sizes, and an increase in off-balance sheet lending to support credit requirements for our largest clients.

Portfolio Quality

At the end of the first quarter, our Portfolio-at-Risk (PAR) greater than 90 day was $7.8 million (13 percent), up from $5.9 million (9.7 percent) last quarter. The main reasons for the increase in PAR greater than 90 days were largely unrelated and resulted from downgrades of a $898K loan to an Ecuadorian cocoa producer and $2.3 million of loans to two Benin cashew producers. The major drivers of these downgrades were itch grass in Ecuador, which prevented cocoa shipments from being imported into the U.S., and price risk and sourcing issues in the cashew-growing regions of Benin.

During the quarter, we wrote off $1.2 million of loans, recovered $326,000, and had a trailing twelve-month net write-off ratio of 7.9 percent. Notably, we wrote off a loan to a Ugandan cocoa producer for $1.1 million due to effects of widespread challenges in the global cocoa market faced last year, as reported in previous quarters.

Advisory Services

During the first quarter of 2018, Root Capital delivered over 500 days of advisory training to 172 businesses, two-thirds of which represent potential Root Capital lending clients who continue to improve their financial readiness. More than half of the trainings conducted this quarter were focused on financial management topics and the remainder were on a range of topics related to other capacity gaps common to the agricultural businesses we serve. Examples include agronomic planning and mobile advisory focused on data-driven decision-making.

Root Capital launched its first ever youth-focused grants program in Latin America this quarter. Three coffee clients in Nicaragua and southern Mexico have been selected to receive grants of up to $20,000 each, funded by the Rising Tide Foundation. Currently, we are holding diagnostic workshops with each selected business to identify projects that provide tailored opportunities to engage and train youth in their communities.

In addition, we launched a new partnership with the Puma Energy Foundation and the Trafigura Foundation to provide essential financial and agronomic training to 12 high-impact cocoa and honey businesses in Mexico, Guatemala, Nicaragua, and Honduras—thereby helping to boost incomes for 2,500 producers. You can read more about this partnership in our recent blog post here.

Financial Results

At the end of the first quarter, Root Capital posted a $1.1 million deficit. This was greater than the projected deficit of $561,000 and was largely driven by lower-than-expected interest and fee revenue and increased provisioning expense. Interest and fee revenue for the quarter totaled $1.5 million, which was $300,000 below our projection and the result of a lower-than-anticipated average portfolio balance due to the challenging market conditions in Central America as previously noted. The lower-than-expected revenue was partially offset by a FX lending gain of over $134,000 , which exceeded projections. The provisioning expense, our largest and most variable expense, was $2.2 million, greater than the $1.4 million projected. With strong recoveries, we ended the quarter with a net provisioning expense of $1.9 million.

At quarter end, Root Capital's $63 million lending portfolio was supported by $9.6 million in unrestricted net assets and $9.2 million in long-term subordinated debt, resulting in a debt-to-equity ratio of 3.4x. In addition, we have $19.8 million in grant funded net assets, a 49% increase over this time last year, comprised of $4.6 million of temporarily restricted grants and $15.2 million of conditional grants that will be added to our net asset balance in future periods as we meet specified conditions and milestones.

Capital Partners

In 2018 we continue to meet the needs of our largest clients through off-balance sheet activities, namely: participation sales, whereby lenders purchase portions of the largest loans in our portfolio, syndicated loans, in which exposure is shared pro-rata among one or more partners, and Lending for African Farm Company (LAFCo), an African-domiciled investment company that targets small- and medium-sized enterprises that contribute to food security across the continent. During the first quarter of 2018, average balances in our Capital Partners' activities totaled $14.7 million: $8.7 million in participations and syndications and $5.9 million in LAFCo.

Conclusion

Root Capital and our clients are making a difference for the most vulnerable farmers and ecosystems. We remain focused on the year ahead and committed to our mission: investing in the growth of agricultural enterprises so they become engines of impact and transform rural communities. We thank all of our donors, investors and partners for your continued support and engagement as we work together to create a stronger and more prosperous future for rural communities.

First Quarter Dashboard

Metric	Result	Full Year Target (unless otherwise noted)	Results as % of Target
Social and Environmental Metrics			
Number of Producers Reached	532K	595K	89%
Purchases from Producers	$604M	$754M	80%
Total Revenue of businesses	$752M	$979M	77%
Sustainable Hectares under Management	318K	415K	77%
Lending Program			
Loan Disbursements	$26.9M	$131.0M	21%
Average Outstanding Portfolio Balance [1]	$63.3M	$69.3M	91%
Average Outstanding Balance per Active Loan	$390K	$409K	95%
Number of Businesses Reached [2]	165	225	73%
Portfolio-at-Risk Over 90 Days [3*]	13.0%	< 7.0%	
Net Write-off Ratio *	7.9%	< 6.0%	
Advisory Services			
Number of Businesses Served	172	301	57%
Days of Training Delivered	507	1965	26%
Operating Results			
Total Operating Expense	$13.2M	$13.5M	98%
Debt to Equity Ratio *	3.7	< 5.0	
Capital Utilization *	70%	87%	81%
Capital Partners			
Average Outstanding Balance [1]	$14.7M	$18.2M	81%
Number of Businesses Reached [2]	22	n/a	

[1] *Average Outstanding Balance figures are for the current quarter only.*

[2] *"Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period. See Terms and Acronyms below.*

[3] *As of December 31, 2017, we have segregated and removed a segment "other collateralized assets" from the PAR greater than 90 days and total portfolio balances. At the end of Q1, we held $4.6 million in other collateralized assets.*

* *Figures represent performance on last day of quarter.*

Terms and Acronyms

Businesses Reached: We report “clients reached” to capture the number of businesses reached by our capital. Clients reached are those that had an outstanding loan balance at any point in the quarter, including clients that did not receive a disbursement in the quarter. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Capital Utilization: Capital utilization measures the proportion of available capital that is deployed in our lending portfolio at a point in time, calculated as: (Gross loans outstanding) / (Notes payable + unrestricted net assets).

Debt to Equity: Notes payable and other debt, divided by lending net assets. Our calculation treats long-term subordinated debt as equity, reflecting its equity-like characteristics.

Gender-Inclusive Clients: A gender-inclusive business either has a supplier and non managerial employee base composed of 30 percent women or more, or is woman-led with 20 percent or greater participation by women producers and/or employees.

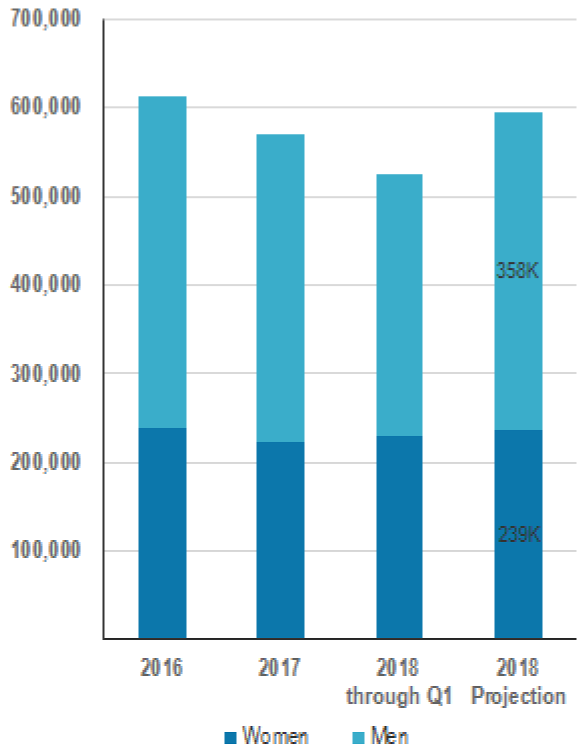
Net Write-off Ratio: A trailing 12-month figure representing the previous 12 months' write offs, net of recovered funds, as a percentage of the average outstanding balance during the same period.

Region Acronyms: MAC (Mesoamerica & Caribbean), SAM (South America), EAF (East Africa), WAF (West Africa), ASI (Southeast Asia — currently Indonesia).

PORTFOLIO PERFORMANCE

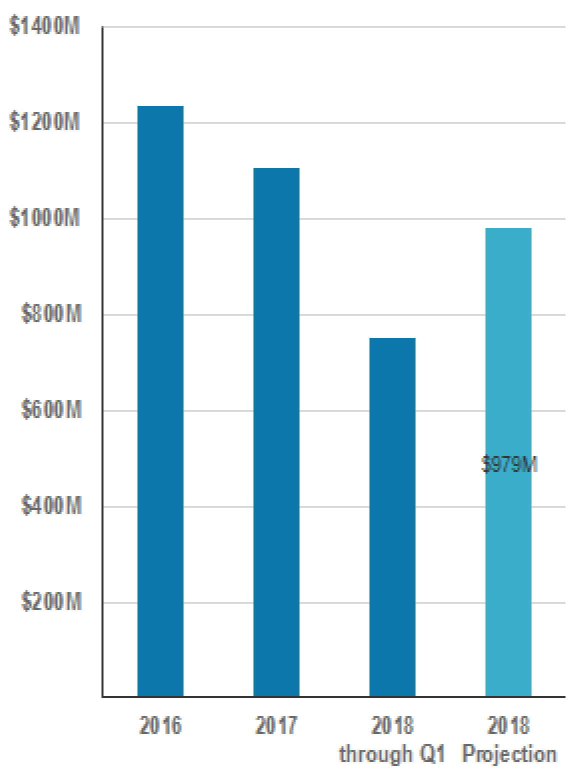
Social and Environmental Metrics

Producers Supplying Business

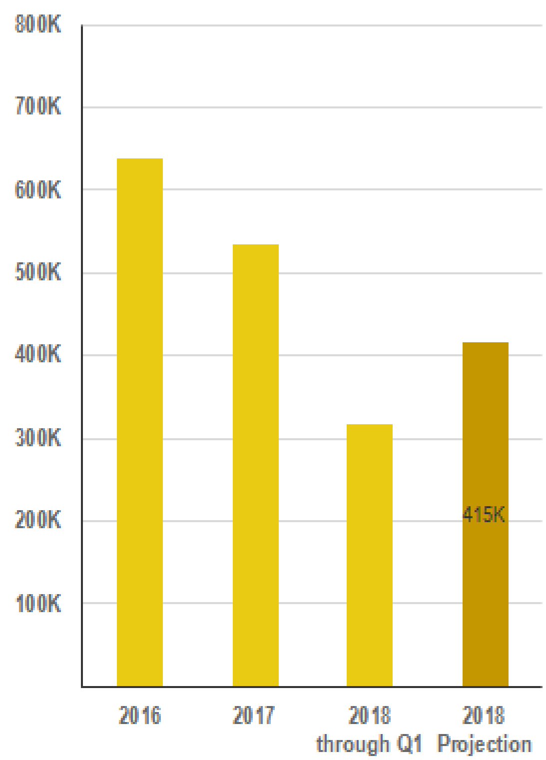


Purchases from Producers

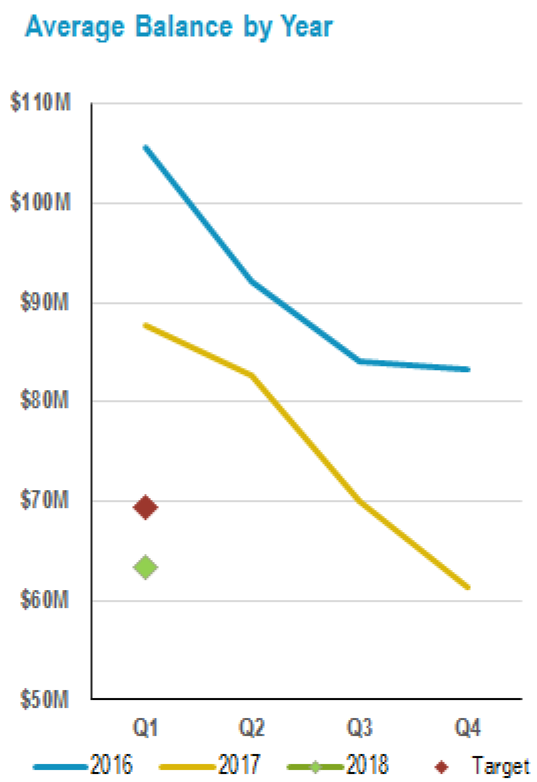
Total Revenue of Businesses

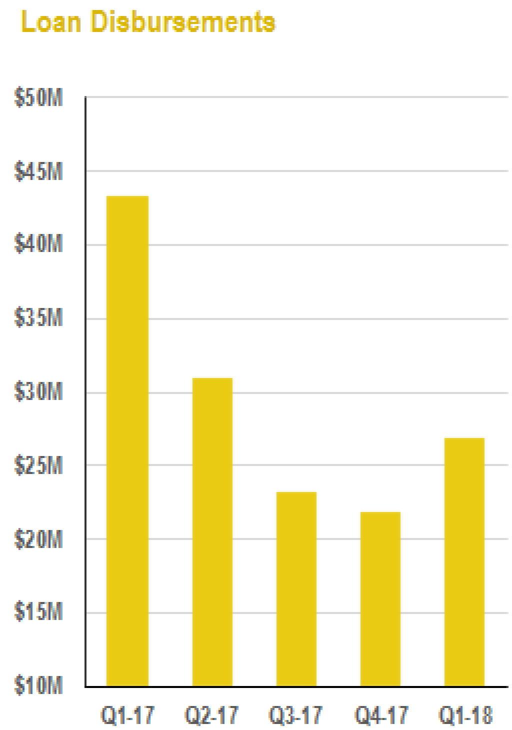


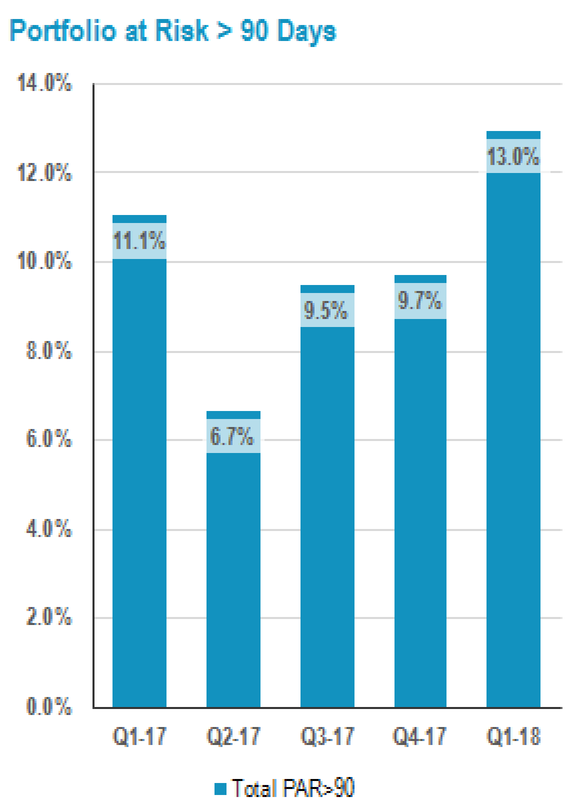
Sustainable Hectares Under Management

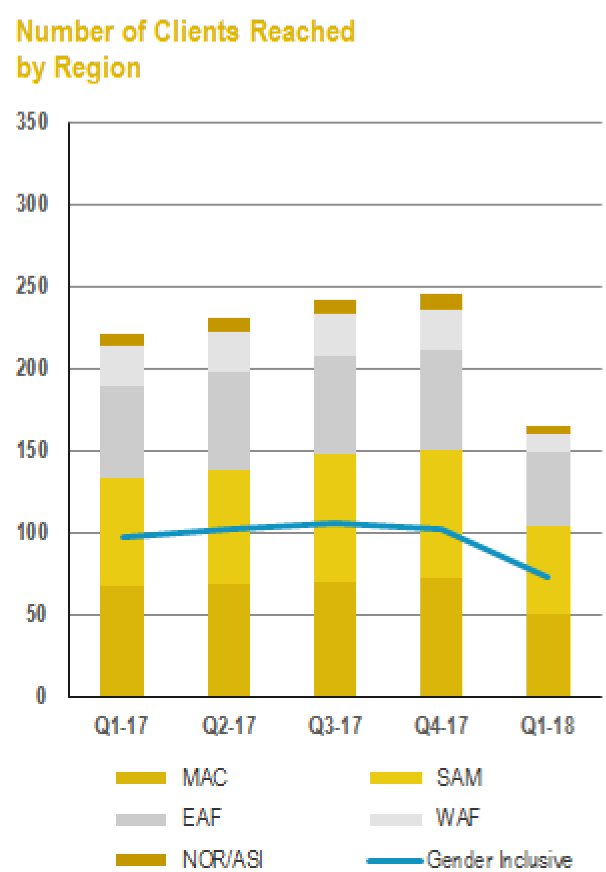


Lending Performance

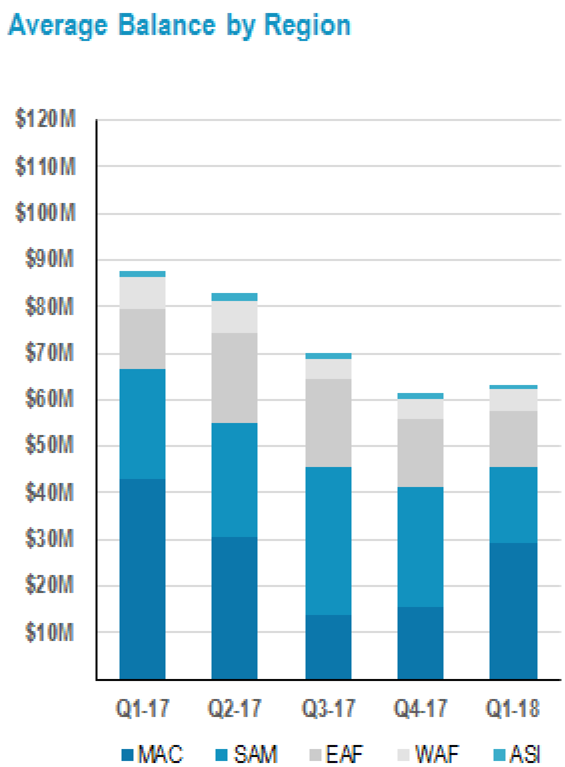


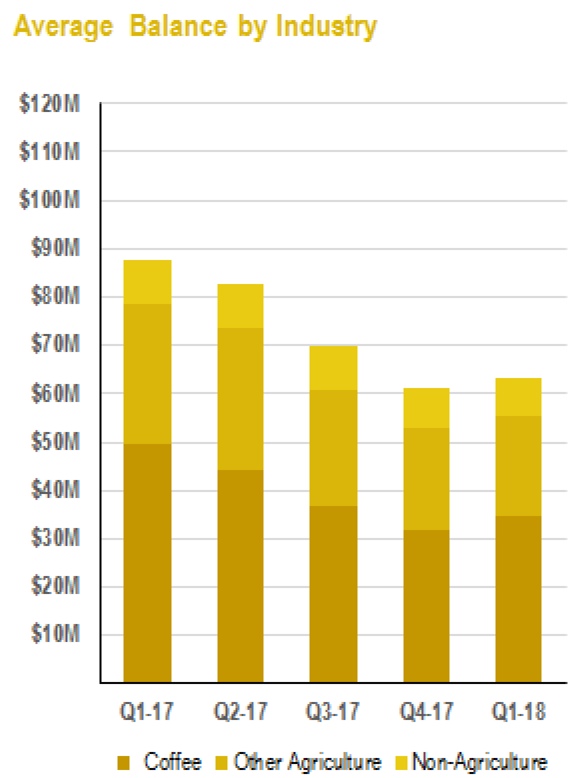




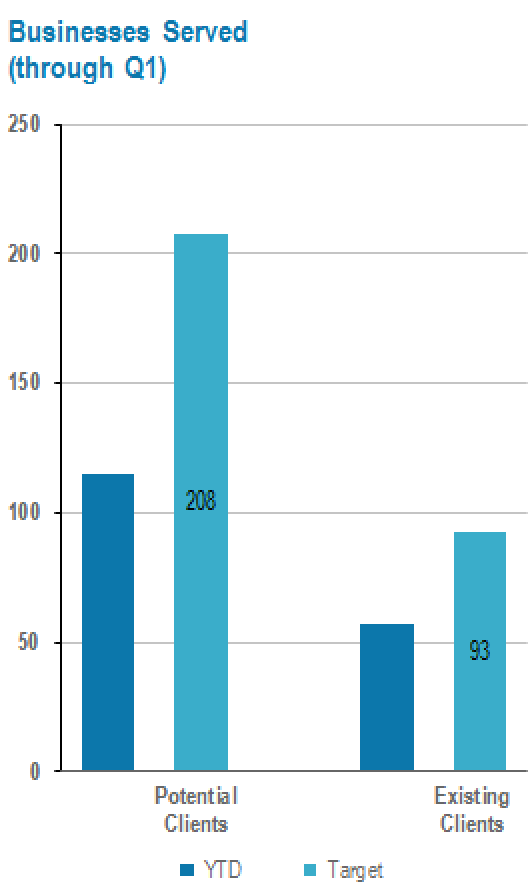


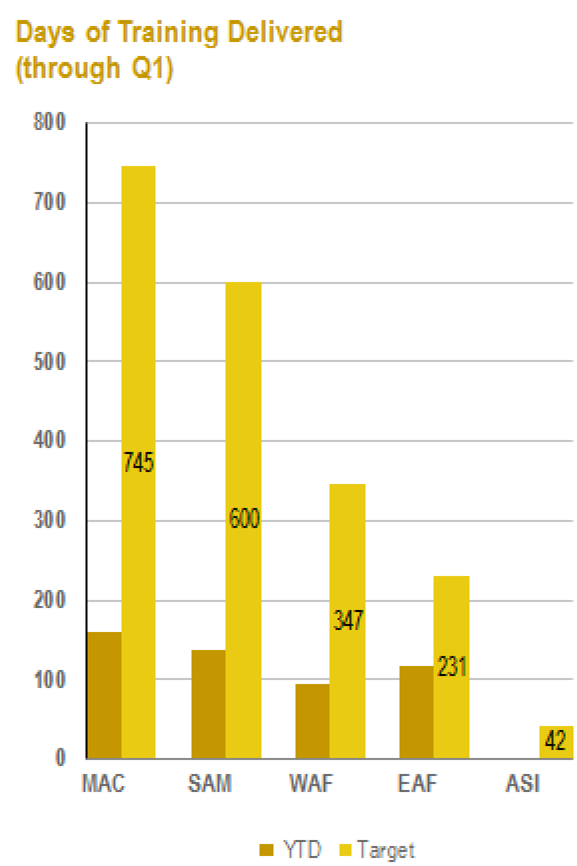
* As of December 31, 2017, we have segregated and removed a segment “other collateralized assets” from the PAR greater than 90 days and total portfolio balances and restated results for previous quarters. At year end, we held $4.8 million in other collateralized assets.





Advisory Services





Balance Sheet

As of March 31, 2018

Balance Sheet Highlights			
Millions of USD	Q1 2018	Q1 2017	Yr/Yr Growth
Cash and Short-Term Investments	24.3	18.0	35%
Total Loans Receivable	60.5	91.5	-34%
Allowance for Credit Losses	(8.1)	(10.7)	-24%
Loans Receivable (net)	52.3	80.8	-35%
Other Collateralized Assets (net) (1)	2.4	1.1	121%
Other Assets	14.4	10.6	36%
Total Assets	**93.4**	**110.5**	**-15%**
Senior Debt	63.1	81.8	-23%
Subordinated Debt	9.2	9.5	-3%
Other Liabilities	7.0	5.3	32%
Total Liabilities	**79.3**	**96.6**	**-18%**
Lending Net Assets	9.6	10.5	-9%
T/R Net Assets (Purpose & Time)	4.6	3.4	35%
Total Net Assets	14.2	13.9	**2%**
Total Liabilities & Net Assets	**93.4**	**110.5**	**-15%**

Key Financial Metrics			
	Q1 2018	Q1 2017	Yr/Yr Growth
Grant Net Assets (2)	19.8	13.2	50%
Debt-to-Equity Ratio (3)	3.4	4.1	-0.7 pts

(1) Includes gross balance of Other Collateralized Assets ($4.6M in Q1 2018 and $1.8M in Q1 2017), and net of allowance for losses ($2.2M in Q1 2018 and $0.7M in Q1 2017)

(2) Grant Net Assets include Temporarily Restricted Net Assets, held on the balance sheet, as well as $12.9M of conditional grants, held off of our balance sheet in accordance with US GAAP, and $2.3M of subordinated debt pledged to convert to net assets through 2020. As grant conditions are met in future periods, we will add the off-balance sheet Contingent Net Assets to the Temporarily Restricted Net Asset (Purpose & Time) balance.

(3) Debt-to-equity treats long-term subordinated debt as equity, reflecting its equity-like characteristics.

Statement of Activities

As of March 31, 2018

Millions of USD	Q1 2018	Q1 2017	Yr/Yr Growth
Interest & Fee Revenue	**1.6**	**2.3**	**-29%**
Net Provisioning Expense	(1.9)	(1.1)	64%
LAFCo & Agency Services Fees	0.0	0.2	-79%
Net Earned Revenue	**(0.2)**	**1.3**	**-118%**
Net Interest Expense	(0.4)	(0.5)	-6%
Net Earned & Financial Revenue	**(0.7)**	**0.8**	**-178%**
Contributions and Grants	2.9	2.4	23%
Operating Revenue	**2.3**	**3.2**	**-29%**
Operating Expenses	(3.4)	(3.3)	1%
Net Surplus	**(1.1)**	**(0.1)**	**842%**

Disclosure

Interim financial data is deemed accurate, but is not audited. Annual audited financial statements will be provided to the Board of Directors, donors and investors. In the event of material differences, a reconciliation will also be provided. Additionally, past performance is not indicative, nor a guaranty, of future results, and no assurances can be given that the Notes will be repaid.

For additional information, please go to www.rootcapital.org or email info@rootcapital.org.

Client Profile

The Village Nut Company

Location: Karatina, Kenya

As farmers deliver their crop and employees carefully hand sort macadamia nuts, the Muhara siblings are busy mentoring the next generation of agricultural entrepreneurs, fulfilling a promise they made years ago. “[Our mother] was a local leader in the village and participated in nearly every committee,” says Mary Muhara, one of the four siblings who together founded The Village Nut Company. “One of the things she always told us was to take care of the youth in our community.”

So, rather than establishing their business in Nairobi, they returned to their rural childhood home two hours north of the city. Here, they are continuing their mother’s legacy of supporting the local community and providing meaningful economic opportunities for its youth. From machine operators and trainers to quality control specialists and sorters, the company provides employment to nearly 100 individuals. Most are young people, especially young women, in their twenties and early thirties.

Root Capital began financing The Village Nut Company in 2015 with a $450,000 line of credit. Over the past three years, the business has grown in its capacity to manage credit, and is currently repaying a $1M loan. But as the company strengthens its business acumen, it also continues to search for ways to maximize its impact—for example, by investing in opportunities for its women workers.

We selected The Village Nut Company to receive one of our first-ever Gender Equity Grants—a $20,000 grant for a project to improve their inclusion of women and enhance workers’ quality of life. The Village Nut Company used some of the funds to construct an on-site daycare facility to lessen the care burden for working mothers. One year after the daycare’s construction, female employees report reduced stress knowing that their children’s nutritional and educational needs were being attended to while they were working.