

Performance Report Q4 2019



Cooperative employees in Rwanda implement a new data tool during a Root Capital Digital Business Intelligence workshop at Maraba Coffee Cooperative.



OVERVIEW

Over the last two decades, Root Capital has demonstrated how expanding access to credit for agricultural enterprises at the margins can transform rural communities. We are excited to report a great close to 2019, including a \$3.6M surplus. These financial results strengthen our organizational resilience, ensuring we can continue to reach overlooked businesses for years to come. Through a renewed focus on our core lending activities and the steadfast support of our donors and investors, the impact and future of Root Capital's work has never been clearer.

Impact

In 2019, Root Capital provided financing to 201 clients with a total reach of 667,000 smallholder farmers, including 271,000 (41%) women. These businesses generated \$1.4B in annual revenues of which 85% was paid directly to farmers. During the year, gender-inclusive businesses represented 47% of Root Capital's lending clients—a sign of the success of our gender-lens lending strategy, which aims to increase inclusion in the male-dominated sectors in which we work. In 2019, 73% of our loans filled critical financing needs unmet by commercial lenders. In addition to the impact of our lending, Root Capital built financial management, governance, and agronomic capacity for 458 agricultural enterprises through our advisory services program, helping them deepen their impact in the communities where they work.

Portfolio Performance

In Q4 2019, our average outstanding portfolio balance was \$45M, a slight decline from our average balance in Q4 of 2018 (\$47M). On a full-year basis, our average balance declined to \$50M from \$55M in 2018. This was driven, in part, by the resolution of non-performing loans across our portfolio. In addition, we decreased lending to non-coffee enterprises in East Africa and tempered activity in Nicaragua due to local instability.

Across our portfolio, we continued to focus our lending activity in the coffee, cocoa, and tree nut industries this quarter. In Q4, these businesses, totalling \$37M, represented 82% of our portfolio compared to 77% in Q3 2019. Loans to coffee businesses totalled \$33M—nearly three-quarters of our average portfolio balance in Q4—while loans to businesses in the cocoa and tree nut sectors made up 7%. In 2019, we increased disbursements by 25% compared to 2018 (\$121M vs. \$97M). This was driven largely by strong activity in the coffee sectors in Honduras, Peru, Colombia, and the Democratic Republic of the Congo (DRC), plus growth in the cocoa sector in Cote d'Ivoire.

While strategic changes to Root Capital's portfolio makeup decreased its total size in 2019, we have become more agile and effective at supporting smallholder farmers in the places

that need it most—like the eastern DRC, a region still healing from the scars of a brutal civil conflict. In 2019, our average balance in DRC increased by 88%, and we disbursed more than \$3.5M compared to \$2M in 2018. In Honduras, also beset by political turmoil, we increased our average balance in coffee by 38% year-over-year, and disbursed almost \$18M compared to \$7M the previous year. This increase reflects renewed activity with long-term clients such as RAOS, a coffee cooperative whose story can be found at the end of this report.

Portfolio Quality

At the end of the fourth quarter, our Portfolio-at-Risk (PAR) greater than 90 days remained stable at \$6.2M (13.1%) compared to the end of Q4 2018 (\$6M, 12.7%). In 2019, we reduced the number of clients in PAR by half—from 16 in 2018 to 8 in 2019. The majority of our PAR balance at the end of 2019 consists of one client in the fisheries sectors—an industry to which we no longer lend. During the year, we wrote off \$3.2M of past due loans and recovered \$1.8M of previously written-off principal, resulting in a trailing 12-month net write-off ratio of 2.3%.

Advisory Services

In Q4 of 2019, Root Capital’s Advisory Services team continued to offer capacity-building training to the staff and leaders of agricultural businesses on a variety of topics, including financial management, agronomic extension, and gender inclusivity. Our network of more than 80 expert trainers continue to apply best practices to addressing local client needs through highly tailored advisory services. In Q4 2019, we are proud to report increased participation of women in our workshops and on-site training sessions in West Africa. This has been particularly evident through our advisory relationship with three women-led associations of rice farmers in Senegal who are using their businesses to engage dynamic young people in the enterprise and the community.

We continued to design and pilot climate resilience advisory services in 2019. In particular, we were excited to host our first climate change vulnerability workshop with five coffee cooperatives in Nicaragua. We leveraged data collected via Digital Business Intelligence (DBI, formerly known as “mobile advisory”) to plot farmers against best-in-class climate risk maps—which agronomic teams can use to segment their members and provide targeted, climate-smart outreach. We look forward to expanding this workshop to other countries in 2020. We also plan to continue refining our DBI service to further optimize clients’ utilization of data to aid in their decision-making processes.

Financial Results

At the end of the fourth quarter, Root Capital’s \$47M outstanding lending portfolio was supported by \$14.7M in unrestricted net assets and \$9.6M in subordinated debt, resulting in

a debt-to-equity ratio of 2.3x. In addition, we have a \$15.5M grants and contributions balance to support our future programmatic activity. This balance is comprised of \$3.6M of net assets with temporary restrictions held on our balance sheet and \$11.9M of conditional grants that will support future programs as we meet specified conditions and milestones.

Root Capital is proud to report that a strong Q4 led to a surplus of \$3.6M for 2019, comparing favorably to \$0.5M surplus for 2018. While our smaller lending portfolio generated \$0.6M less in revenue than in 2018, this was offset by a \$1.9M reduction in net provisioning expense. Root Capital's grant and contribution revenue increased to \$17.9M in 2019, comparing favorably to \$15.5M in 2018, a 16% increase year-over-year. The 2019 revenue is inclusive of \$3.7M in unrestricted contribution revenue raised through the net asset campaign.

These positive results were due to a strong fourth quarter that brought several major fundraising successes. Our Women in Agriculture Initiative received its largest ever contribution from the Wagner Foundation, a long-time partner. This multi-year grant will support a range of activities, including increased lending to gender-inclusive businesses and capacity building in gender inclusion for both our trainers and clients. In addition, Root Capital received vital unrestricted support from several long-time supporters and former donors in 2019, many of whom re-engaged through our 20th anniversary celebrations.

Conclusion

During Root Capital's 20th year we solidified our position as a leading lender in the coffee, cocoa, and tree nut sectors across Latin America, Africa, and Indonesia. We continued to show that, by equipping agricultural enterprises with the credit and capacity-building services they need to succeed, we can make them bankable and resilient. We are better positioned than ever to reach these businesses and help them grow into engines of long-term, sustainable impact in rural communities.

In 2020, we are excited to build upon the increased activity seen across all of our operating regions in 2019, and to deepen our efforts to help agricultural businesses become more inclusive and resilient.

2019 Dashboard

| Results | |
|----------|--|
| | Impact |
| 201 | Businesses Reached ¹ |
| 47% | Percent Gender Inclusive Businesses |
| 667K | Producers Reached |
| 41% | Percent Woman Farmers |
| 16K | Employees Reached |
| 46% | Percent Woman Employees |
| \$1.2B | Purchases from Farmers |
| \$1.4B | Total Sales for the Businesses |
| 847K | Sustainable Hectares under Management |
| | Lending Program |
| \$121.0M | Loan Disbursements |
| \$44.5M | Average Outstanding Portfolio Balance ² |
| \$354K | Average Outstanding Balance per Active Loan ² |
| 13.1% | Portfolio-at-Risk Over 90 Days ^{2,3} |
| 2.3% | Net Write-off Ratio (Trailing 12 Months) |
| | Advisory Services |
| 458 | Businesses Served |
| 3,480 | Days of Training Delivered |

¹ "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.

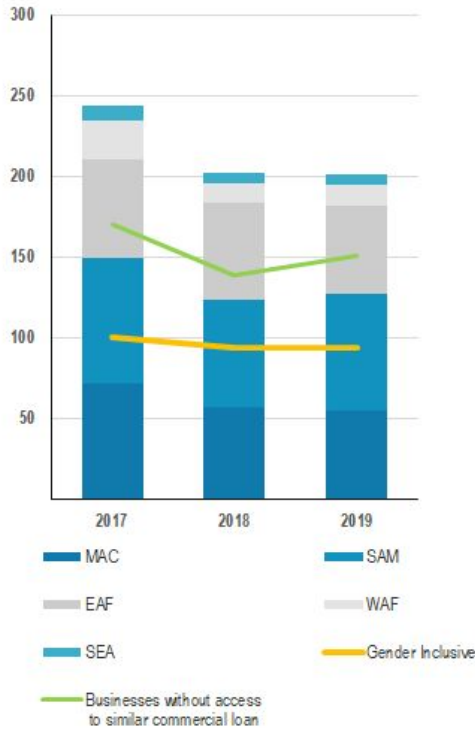
² Results are for the current quarter only.

³ Figures represent performance as of the last day of the quarter.

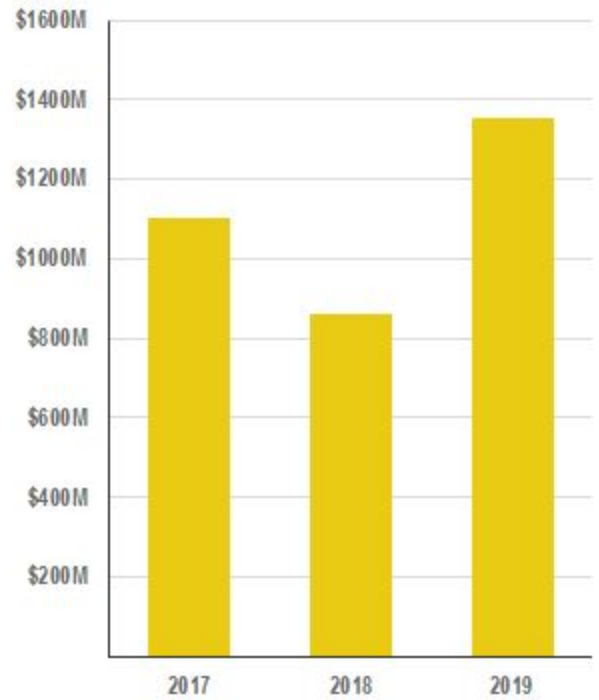
PORTFOLIO PERFORMANCE

Impact

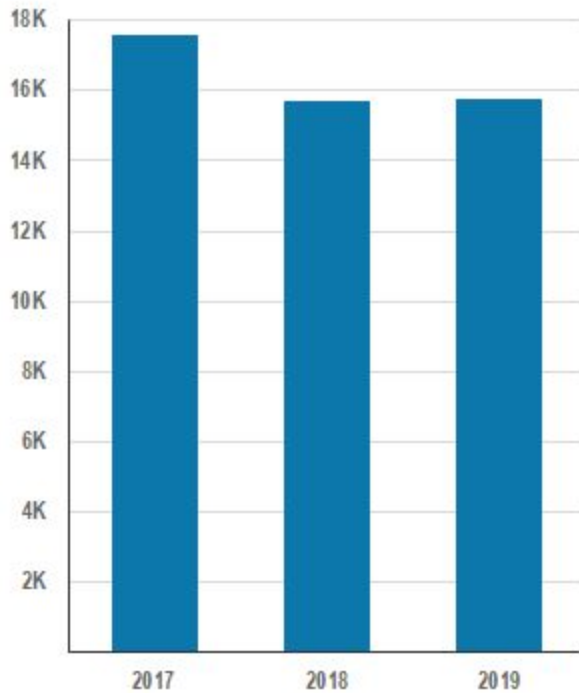
Businesses Reached by Region



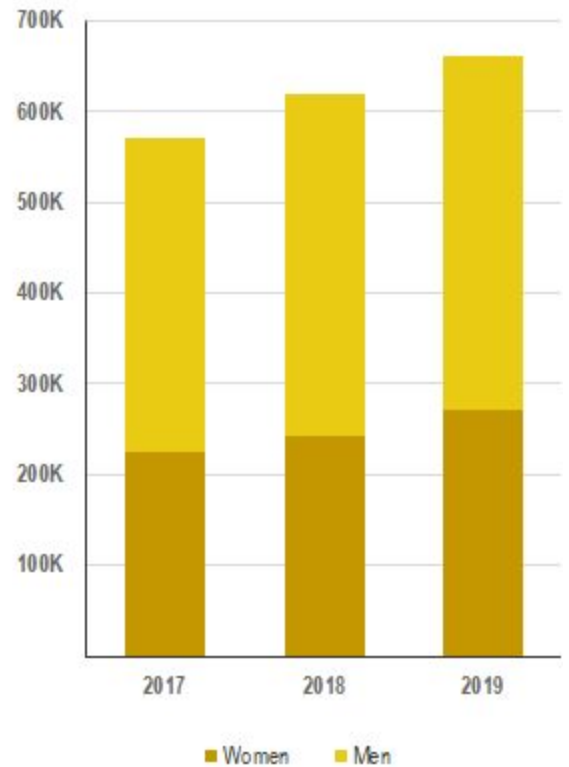
Total Businesses' Sales



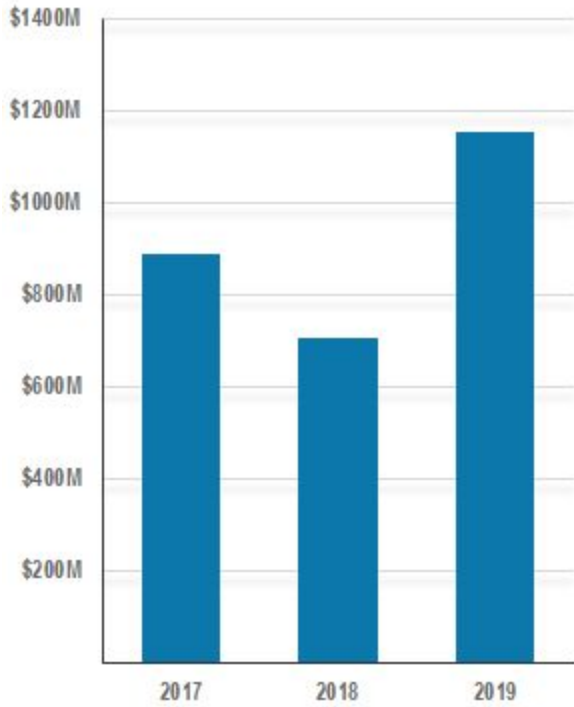
Employees Reached



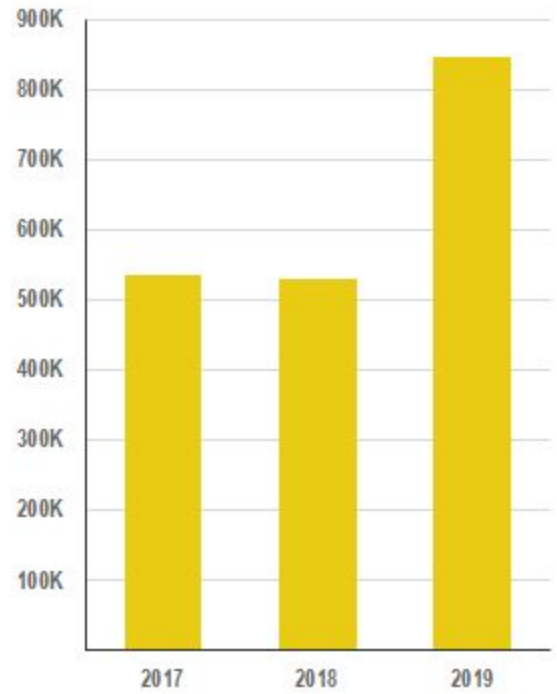
Farmers Supplying Businesses



Purchases from Farmers

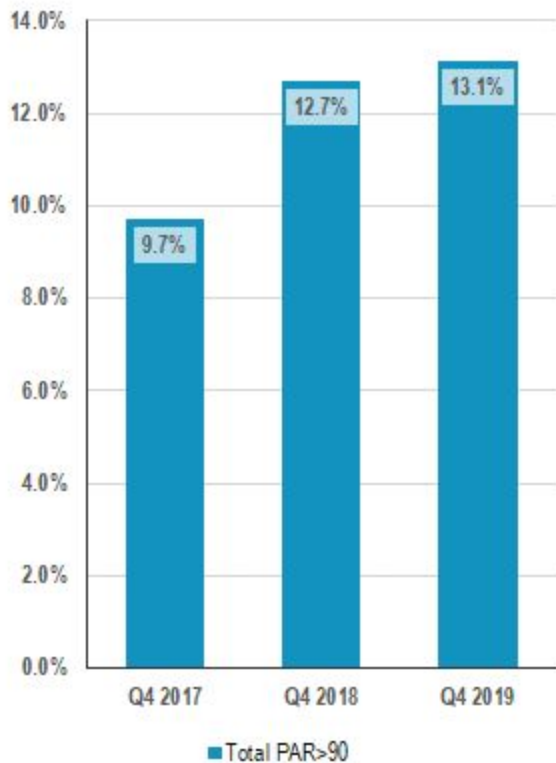


Sustainable Hectares Under Management

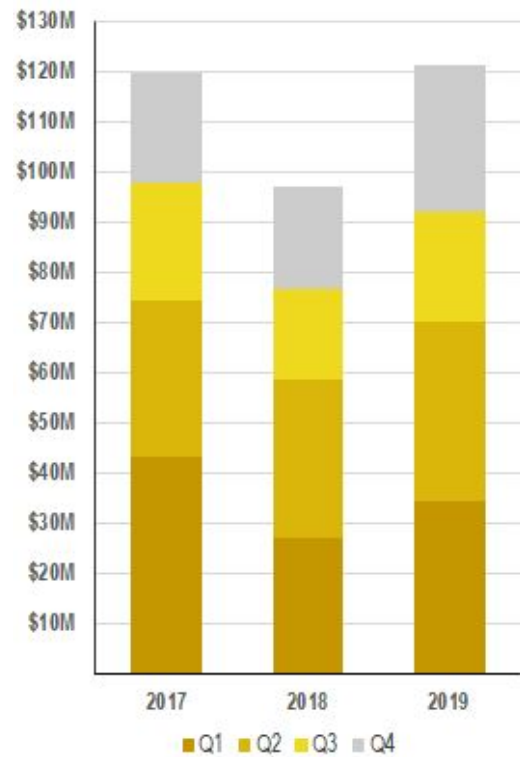


Lending & Advisory Services

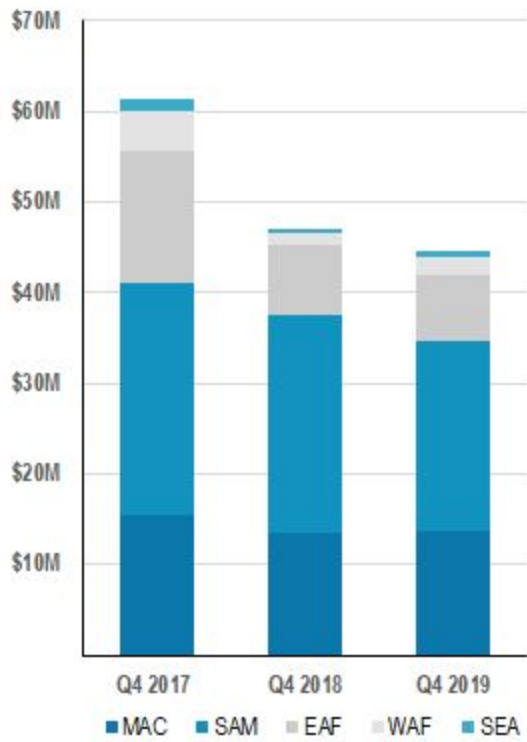
Portfolio at Risk > 90 Days



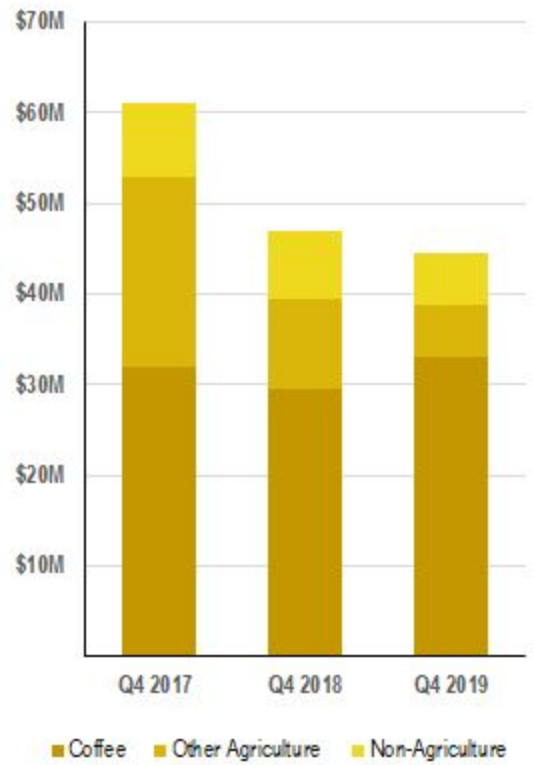
Loan Disbursements



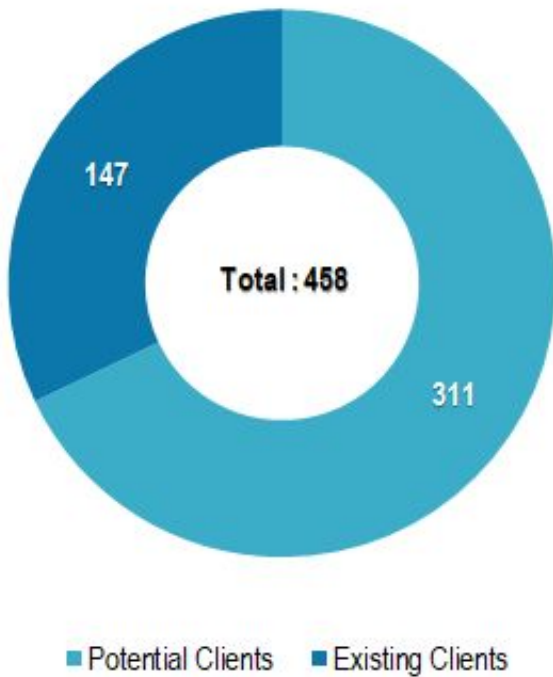
Average Balance by Region



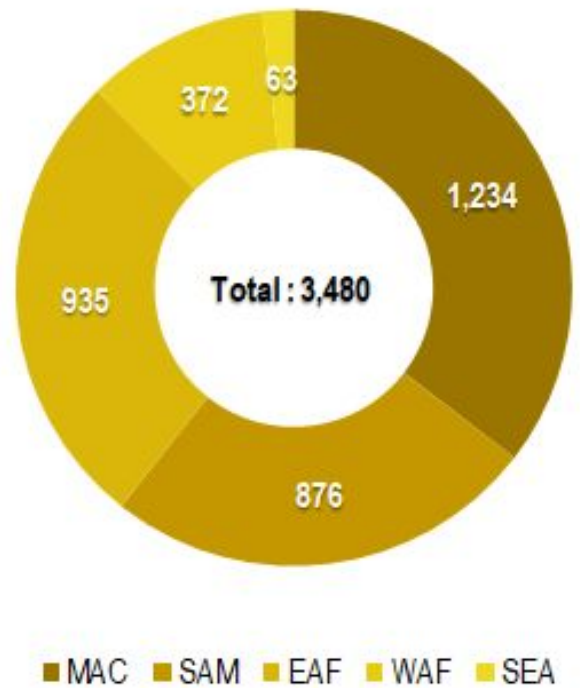
Average Balance by Industry



Businesses Served by Advisory (through Q4)



Days of Training Delivered (through Q4)



Balance Sheet & Statement of Activities

| Balance Sheet | | |
|---|-------------|-------------|
| <i>Millions of USD</i> | 2019 | 2018 |
| Cash and Short-Term Investments | 37.8 | 39.5 |
| Loans Receivable | 47.0 | 47.1 |
| Allowance for Credit Losses | (7.2) | (7.9) |
| Loans Receivable, Net of Allowance | 39.8 | 39.2 |
| Other Assets | 10.7 | 12.1 |
| Total Assets | 88.3 | 90.9 |
| Senior Debt | 55.7 | 62.9 |
| Subordinated Debt | 9.6 | 7.4 |
| Other Liabilities | 4.7 | 4.8 |
| Total Liabilities | 70.0 | 75.1 |
| Unrestricted Net Assets | 14.7 | 11.1 |
| Net Assets with Restrictions | 3.6 | 4.6 |
| Total Net Assets | 18.3 | 15.7 |
| Total Liabilities & Net Assets | 88.3 | 90.9 |
| Debt-to-Equity Ratio* | 2.3 x | 3.4 x |
| Grant Net Assets** | 15.6 | 19.9 |

* The debt-to-equity ratio is adjusted to include subordinated debt as equity, reflecting its equity-like characteristics.

** Grant Net Assets include \$3.6M of net assets with restrictions, as well as \$11.9M of conditional grants held off of our balance sheet. As grant conditions are met in future periods, we will add the off-balance sheet conditional grants to the net assets with restrictions balance.

| Statement of Activities | | |
|--------------------------------|-------------|-------------|
| <i>Millions of USD</i> | 2019 | 2018 |
| Revenue | | |
| Grant Revenue | 10.0 | 8.6 |
| Contribution Revenue | 7.9 | 6.8 |
| Lending Revenue | 5.6 | 6.2 |
| Interest Income | .4 | .2 |
| Total Revenue | 23.8 | 21.9 |
| Expenses | | |
| Operating Expenses | 15.8 | 14.9 |
| Provisioning Expense | 2.8 | 4.7 |
| Interest Expense | 1.6 | 1.8 |
| Total Expenses | 20.2 | 21.4 |
| Surplus / (Deficit) | 3.6 | .5 |

Disclosure

The financial data is deemed accurate, but is not audited. Annual audited financial statements can be found on [Root Capital's website](#). Additionally, past performance is not indicative 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.

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Terms and Acronyms

Businesses Reached: We report “clients reached” to capture the number of businesses financed using our capital. Clients reached are those that had an outstanding loan balance at any point in the reporting period. This is a cumulative metric; clients are added to the annual total in the quarter in which they are first reached.

Contribution Revenue: Revenue earned during the period without donor restrictions, generally received from individuals or foundations.

Debt-to-Equity: The ratio of senior debt to the sum of unrestricted net assets and subordinated debt. Our calculation treats subordinated debt as equity, reflecting its equity-like characteristics.

Gender-Inclusive Clients: A gender-inclusive business is one where women make up at least 30% of enterprise farmer suppliers or employees, or the enterprise is woman-led and women make up at least 20% of enterprise farmer suppliers or employees.

Grant Revenue: Revenue earned during the period generally from foundations or governments under multi-year agreements.

Interest Expense: Interest expense incurred on debt.

Interest Income: Interest revenue generated on cash and investments.

Lending Revenue: Revenue generated from our lending activities, comprised of fees and interest earned on our lending portfolio.

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.

Provisioning Expense: Allowance for loan loss expense on our lending portfolio, net of recovered funds.

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



Melba Sosa (R) of RAOS shakes hands with Root Capital founder and CEO Willy Foote (L)

Client Profile

RAOS

Location: Maracala, Honduras

In 1997, in the highlands of Honduras, 19 coffee farmers joined together to form the RAOS coffee cooperative. Their goal: to connect directly with roasters in Germany and access higher prices for their crops. Thanks to a few good harvests—and a lot of hard work—their ranks began to grow. But by the time Root Capital came in contact with the cooperative, they were stuck. With inadequate financing, their access to the international market was limited and their members couldn't get the prices they deserved.

With a \$75,000 loan from Root Capital in 2007, the cooperative was able to grow again. We accompanied them along their trajectory, eventually growing their line of credit to \$1.5M and complementing it with financial and agronomic advisory services to build the long-term health of the organization. This holistic approach paid off in 2018 when RAOS received more favorable commercial financing, reflecting how improved management capacities have unlocked long-lasting change for the cooperative and its members.

Our lending and advisory partnership continues today, with RAOS serving as an important innovation partner. Together, we're pioneering new products—like our climate advisory services—that allow us to provide RAOS and other agricultural businesses with creative solutions to some of the world's most pressing problems.