

Performance Report

Q4 2020



Two coffee farmer-members of ACPCU in Uganda lay down fertilizer—a climate-smart agricultural practice. This year was marked by strong coffee lending activity in the country and further development of climate advisory services around the world.



OVERVIEW

Root Capital sets the standard for financing agricultural businesses, ensuring these enterprises—and the farming families that they support—have the tools they need to promote prosperity in the face of hardship. 2020 was a particularly challenging year, but our portfolio results show that it's possible to overcome adversity when we invest in resilience.

COVID-19 Response

As the pandemic's impacts persisted in the fourth quarter of 2020, Root Capital maintained steadfast commitment to our clients with continued access to financing, remote advisory services, and resilience grants. These tools are helping enterprises maintain business continuity so they can provide opportunities to farming families throughout and beyond this pandemic. For more information on our activities, [please read our six-month impact report](#).

These programs are supported by the generosity of our community of donors and investors. Through the end of 2020, we've raised \$5.3M for a COVID-19 Rapid Response Fund to ensure our clients can continue to serve as engines of impact.

Impact

In 2020, Root Capital provided financing to 185 businesses reaching 684,000 smallholder farmers. Forty-six percent of these businesses are gender-inclusive, actively creating opportunities for women farmers, employees, and leaders. This year, businesses supported by Root Capital paid \$1.1B directly to farmers—86% of their total revenues. In spite of pandemic lockdowns limiting in-person activities, this year Root Capital utilized remote tools to train 281 enterprises on the financial, agronomic, and management skills necessary to ensure their long-term success.

We're pleased to report that 83% of active loans this year filled credit needs unmet by commercial lenders, up from 73% in 2019. These high-impact loans solve critical challenges of liquidity and flexibility for underserved businesses when they need them most.

Portfolio Performance

In 2020, Root Capital's portfolio performance was strong as we disbursed \$115.7M and closed loans with 24 new clients in spite of the challenges posed by the pandemic. In Q4 2020, our average outstanding portfolio balance was \$41.4M, a 7% decline from our average balance in Q4 of last year. This change is a byproduct of our improved portfolio quality as we wrote down legacy loans to continue our strategic refocus in lending to coffee, cocoa, and tree nut businesses. These industries comprised 91% of our portfolio balance this quarter,

up from 82% in Q4 2019. Loans to coffee businesses continue to represent the majority of our average portfolio balance at \$31.8M (77%).

In Central America and Mexico, where the coffee harvest is underway, our lending activity has remained strong. Despite concerns over lost harvests and damaged infrastructure caused by two hurricanes this quarter, our clients have shown extraordinary resilience. In Honduras and Nicaragua, where the hurricanes' impacts were hardest-felt, our activity this quarter was nearly identical to that of 2019, despite damage to coffee trees and processing facilities. In Peru, we accelerated our early-stage entry into the cocoa sector, finishing the year with strong lending results. We disbursed \$3.7M to cocoa enterprises in that country, a 130% increase over the previous year.

In East Africa, our commitment to Uganda's coffee industry grew, with disbursements tripling compared to 2019, offsetting reductions to the Kenyan macadamia and Rwandan coffee segments. Kenya's macadamia enterprises faced reduced demand in Asia due to the pandemic, and our disbursements to the segment contracted 29%. Concurrently, a decline in demand for specialty coffee, due to closures of in-person cafe service around the world, resulted in a 13% year-on-year decline in disbursements in Rwanda.

Portfolio Quality

At the end of 2020, our portfolio quality is the strongest it has been since 2014, the result of working through legacy nonperforming loans and taking a prudent approach to underwriting risks. At year-end, our Portfolio-at-Risk (PAR) greater than 90 days decreased to \$1.5M (3.5%) and is down from \$6.2M (13%) at the end of 2019. Over the past twelve months, we wrote down \$10.3M of past due loans and recovered \$0.9M of previously written-off principal, resulting in a trailing 12-month net write-off ratio of 20%. This decrease was driven by the write-off of legacy loans in the Mexican fisheries sector in Q2 2020 and other legacy loans originated up to eight years prior.

Advisory Services

Our advisory team adapted quickly in 2020 to ensure we could provide capacity building to agricultural businesses on both emergency COVID-19 response and general business knowledge critical to promoting long-term prosperity. This quarter, we organized a series of virtual biosafety workshops in Latin America to help clients, [like UNICAFEC in Peru](#), develop safety protocols to ensure smooth operations during their harvest. We also continued supporting clients in West Africa to access governmental tax exemptions and COVID-19 support schemes.

We're proud to announce that, in 2020, 35% of participants in our advisory workshops were women—well above the goal of 30% set under our Women in Agriculture Initiative. This continues an upward trend for this critical metric: from 23% in 2018 and 30% in 2019.

This quarter we launched a beta test of our data platform, which houses farmer-level data to create manipulable Tableau visualizations for our clients. Businesses in Latin America are using the software to integrate, analyze, and share information that improves their decision-making power. We anticipate further development and rollout throughout 2021.

Financial Results

Root Capital enters 2021 in a healthy financial position with significantly improved portfolio quality and a strong balance sheet. In 2020, Root Capital reported a surplus of \$0.9M, illustrating our continued resilience against a challenging backdrop, and positioning us to accelerate our impact through 2021 and beyond. This builds on a \$3.5M surplus in 2019, for our fourth consecutive annual surplus. In 2020, our smaller lending portfolio generated slightly lower lending revenue compared to 2019, while the improved quality of the portfolio resulted in consistent year-over-year provisioning expenses. Grant and contribution revenue was \$15.8M in 2020, down from \$17.5M in 2019. The organizational surplus in 2019 was largely due to fundraising for unrestricted net assets to increase our lending capacity. In 2020, we pivoted to meet the needs of clients impacted by the pandemic, including fundraising for COVID-19 response.

Our balance sheet remained strong in Q4 of 2020, with low leverage and ample liquidity. At the end of Q4 2020, Root Capital's \$44.5M outstanding loan portfolio was supported by \$15.5M in unrestricted net assets, \$7.1M in subordinated debt, and \$44.5M of senior notes for an adjusted debt-to-equity ratio of 2.0x. In addition, we have \$16.3M in grant net assets to support future programmatic activity

In 2020, we continued to work with donors and investors—including the US Development Finance Corporation—to develop new blended finance support mechanisms, such as loan guarantees. Guarantees cover eligible portfolio segments, are only deployed in the event of a loss, and reduce the volatility of our lending program. This mix of financing deepens our ability to provide impactful, sustainable financing to our clients. Our client's repayment rates continue to be strong, in line with expectations and historical trends.

Conclusion

As we embark upon a new year, Root Capital remains financially sound and committed as ever to agricultural businesses and the farming families they support. Throughout the COVID-19 pandemic, these businesses have shown they are key to ensuring that our world doesn't just bounce back from this crisis, but can bounce forward into a prosperous, inclusive, and resilient future.

2020 DASHBOARD

Results	
332	Total Businesses Reached
Lending Program Impact	
185	Businesses Reached ¹
46%	Percent Gender Inclusive Businesses
684K	Farmers Reached
39%	Percent Woman Farmers
16K	Employees Reached
51%	Percent Woman Employees
\$1.1B	Purchases from Farmers
\$1.2B	Total Sales for the Businesses
960K	Sustainable Hectares under Management
Lending Program	
\$115.7M	Loan Disbursements
\$41M	Average Outstanding Portfolio Balance ²
\$320K	Average Outstanding Balance per Active Loan ²
3.5%	Portfolio-at-Risk Over 90 Days ^{2,3}
20.3%	Net Write-off Ratio (Trailing 12 Months)
Advisory Services	
281	Businesses Served
2,924	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.

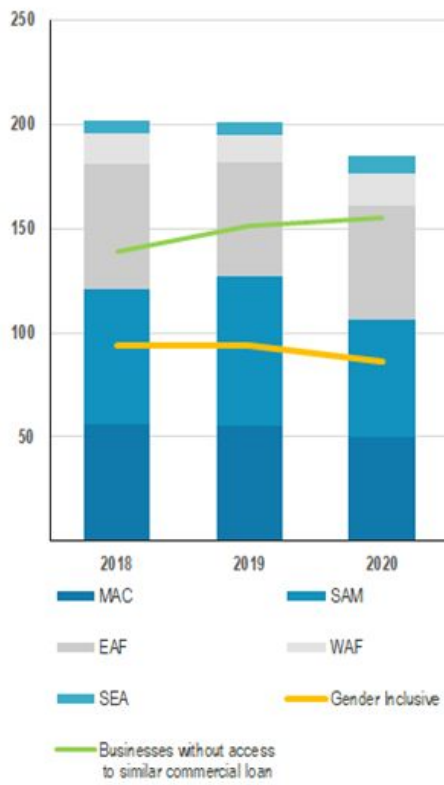
² Results are for the current quarter only.

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

PORTFOLIO PERFORMANCE

Impact

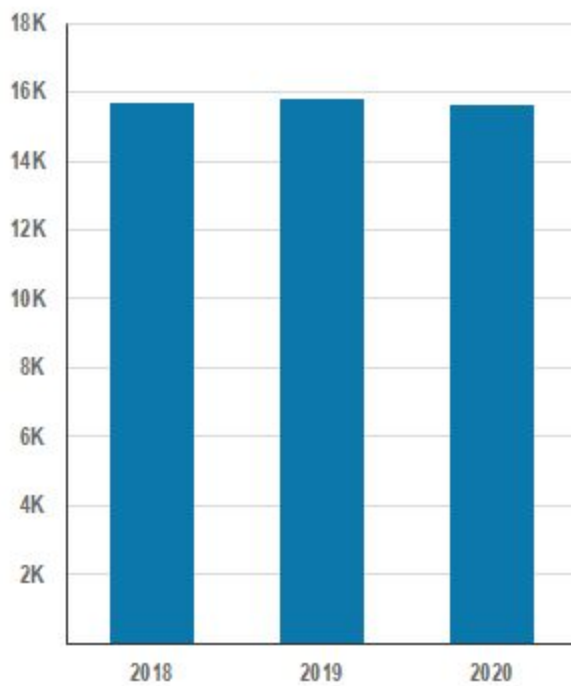
Businesses Reached (Lending Program)



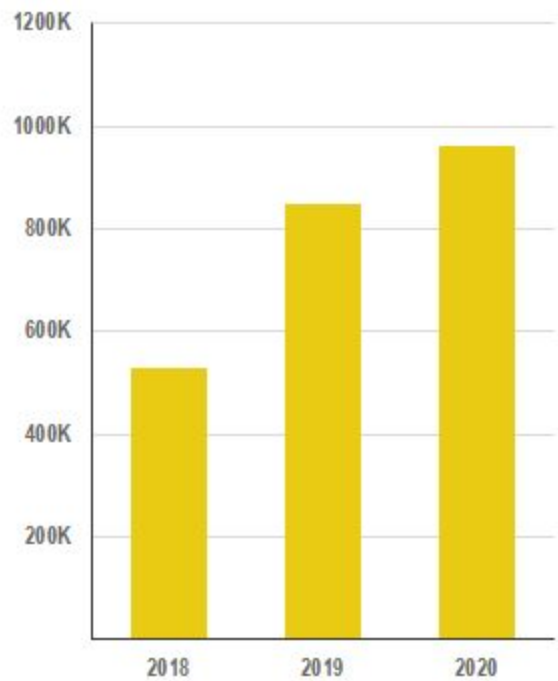
Total Businesses' Sales



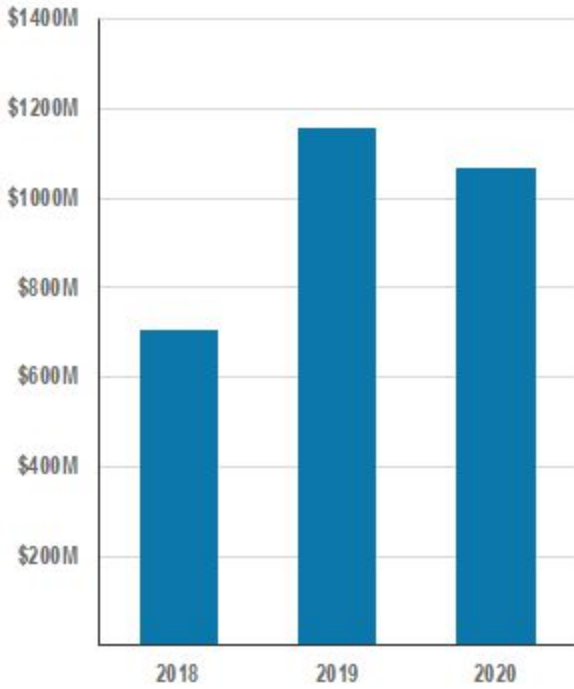
Employees Reached



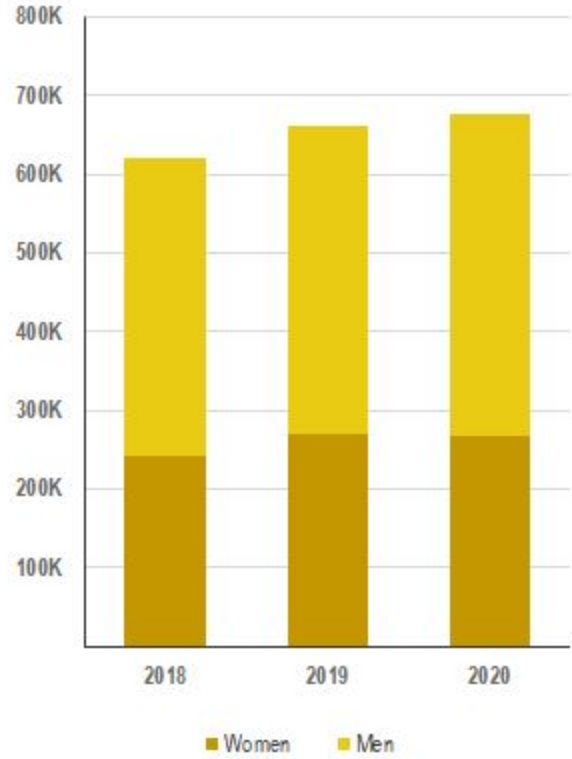
Sustainable Hectares Under Management



Purchases from Farmers

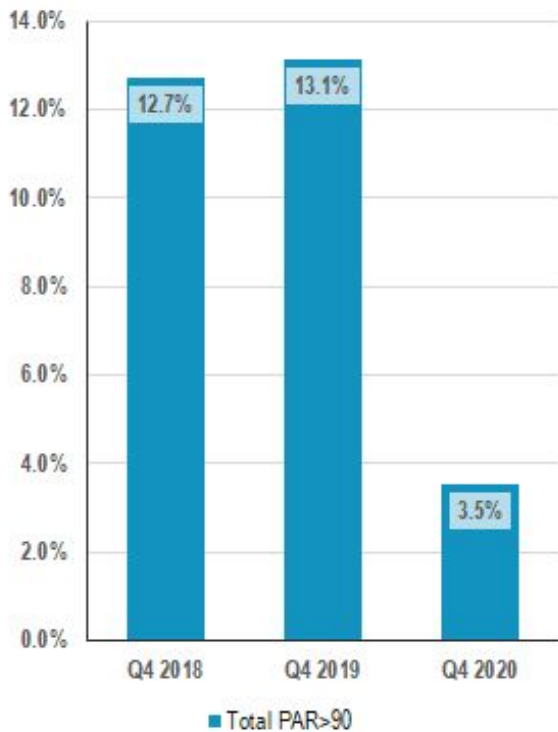


Farmers Supplying Businesses

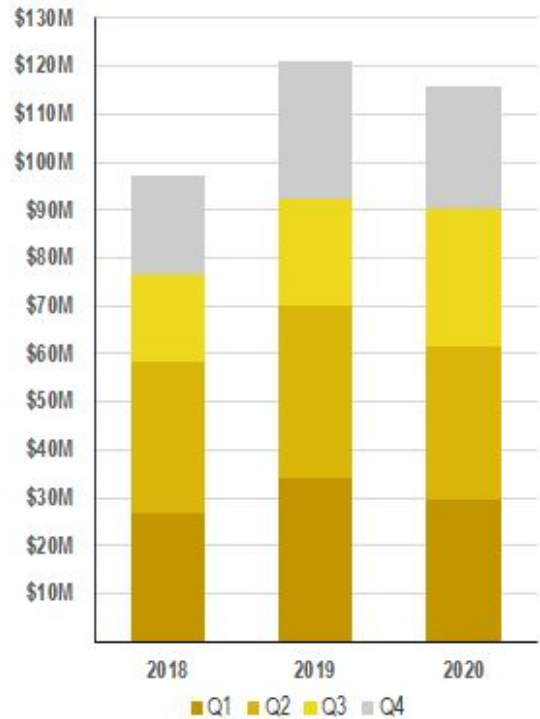


Lending & Advisory Services

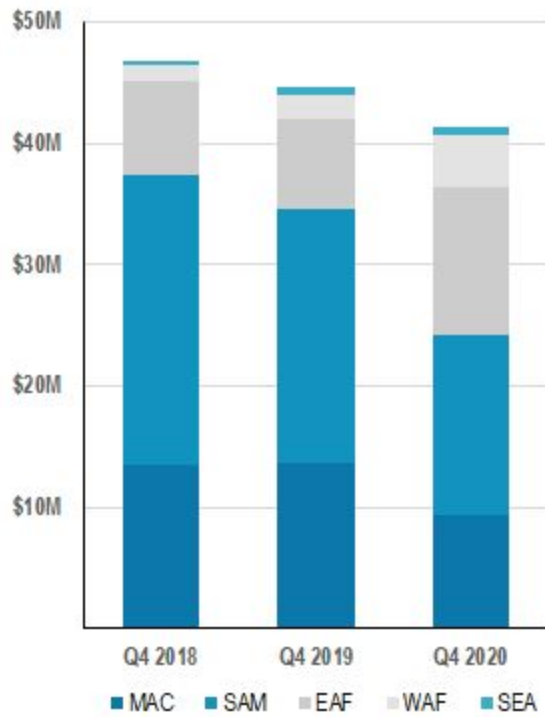
Portfolio at Risk > 90 Days



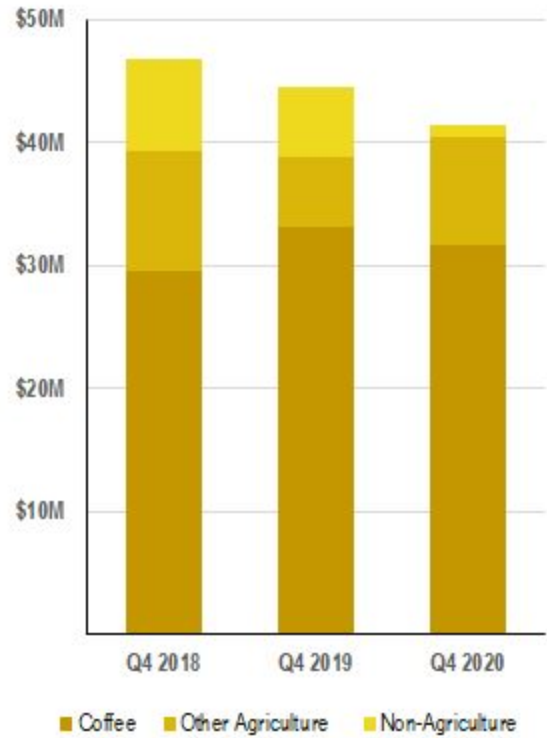
Loan Disbursements



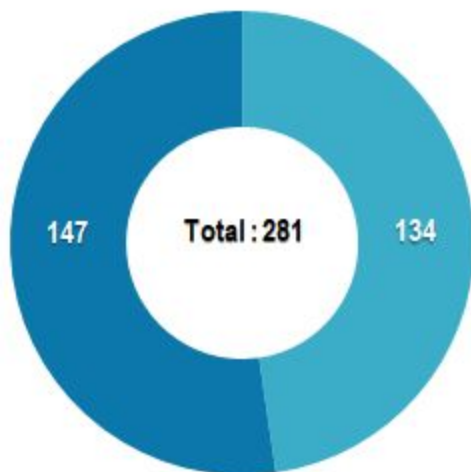
Average Balance by Region



Average Balance by Industry

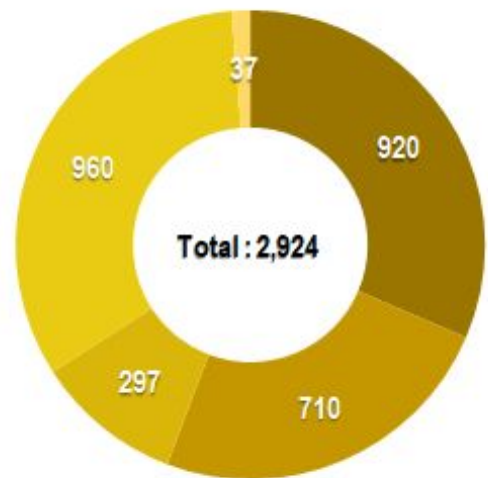


Businesses Served by Advisory Through Q4



Existing Lending Clients Potential Lending Clients

Days of Training Delivered Through Q4



MAC SAM WAF EAF SEA

Balance Sheet & Statement of Activities

Balance Sheet		
<i>Millions of USD</i>	Q4 2020	Q4 2019
Cash and Short-Term Investments	32.5	37.8
Loans Receivable	44.6	52.8
Allowance for Credit Losses	(4.2)	(10.5)
Loans Receivable, Net of Allowance	40.4	42.3
Other Assets	11.1	19.2
Total Assets	84.0	99.3
Senior Debt	44.5	55.7
Subordinated Debt	7.1	9.6
Other Liabilities	3.4	4.8
Total Liabilities	55.0	70.1
Unrestricted Net Assets	15.5	14.6
Net Assets with Restrictions	13.5	14.6
Total Net Assets	29.0	29.2
Total Liabilities & Net Assets	84.0	99.3
Debt-to-Equity Ratio*	2.0x	2.5x
Grant Net Assets**	16.3	15.5

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

** Our grant net assets include off-balance-sheet conditional grants.

Reclassifications may have been made in the prior year to conform with the current year's presentation.

Statement of Activities

Year-to-date as of December 31st

<i>Millions of USD</i>	2020	2019
Revenue		
Grant Revenue	9.0	9.7
Contribution Revenue	6.9	7.9
Lending Revenue	5.2	5.5
Interest and Other Income	0.9	0.6
Total Revenue	22.0	23.7
Expenses		
Operating Expenses	16.8	15.8
Provisioning Expense	2.9	2.8
Interest Expense	1.4	1.6
Total Expenses	21.1	20.2
Surplus	0.9	3.5

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 and employees, or the enterprise is woman-led and women make up at least 20% of enterprise farmer suppliers and 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; comprises 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).



Rosendo Pineda, an employee of Montaña Verde, assesses the damage after November's hurricanes.

Client Profile

Montaña Verde

Location: Santa Bárbara, Honduras

The Montaña Verde coffee cooperative connects 150 farmers with market access and better livelihoods. Since 2011, Root Capital has been a partner in their impact, growing from a \$200K loan that first year to provide \$11.5M in cumulative financing. Most importantly, we have stayed by their side when they need it most.

In 2013, these farmers suffered massive crop loss as *la roya*, a crop disease, swept across Central America causing the loss of over \$1B in revenue. “It feels like a scourge from God,” one farmer-member said at the time. When other lenders were scarce, we provided financing to Montaña Verde and helped its farmers renovate and replant their damaged farms. But *la roya*—exacerbated by high temperatures and erratic rainfall—was a harbinger of more climate dangers to come.

In November, two hurricanes hit the Honduran countryside in as many weeks, a tragedy compounded by the ongoing COVID-19 pandemic. Within a month, Root Capital approved Montaña Verde's loan for this harvest, a vote of confidence that ensured farmers could weather uncertainty. We're also working closely with Montaña Verde to prepare for future climate threats. As participants in our climate vulnerability assessment pilot, the cooperative uses data to identify the farmers most at risk and helps them adapt. Coffee communities can't predict the future, but by working together, we can ensure they're prepared to face it.