Performance Report
Q3 2019

In the eastern Democratic Republic of the Congo, where communities struggle with violence and Ebola, coffee enterprises are engines of hope and positive impact.

OVERVIEW

For 20 years, Root Capital has provided critical financing and capacity-building services to enterprises in hard-to-reach rural areas. By helping these businesses grow, we increase the incomes and resilience of the farmers that supply their crops, the workers they employ, and the communities they sustain. With your support, we have created a robust market for agricultural finance. In fact, a recent analysis showed that, on average, more than 40% of our client businesses are able to access commercial financing after only two years of working with Root Capital. We are demonstrating to the world that small rural enterprises are both bankable and impactful—and we thank you for your role in making that possible.

Impact

Through the third quarter of 2019, Root Capital's lending program reached 190 businesses working with 649,000 smallholder farmers—more than 263,000 (41%) of whom were women. These businesses generated almost $1.3B in annual revenues, 86% of which were paid to farmers. Through Q3, gender-inclusive businesses represented 47% of Root Capital's lending clients, a significant and important feat in the traditionally male-dominated sectors in which we work. In addition, through our tailored advisory services, Root Capital improved the financial management, governance, and agronomic capacity of 153 enterprises. Through Q3, 72% of our loans filled critical financing needs unmet by commercial lenders.

Portfolio Performance

In Q3 2019, our average outstanding portfolio balance was $51.7M, a three percent decline relative to Q3 last year ($53.2M), but a stable hold from the second quarter of 2019 ($51.7M). The coffee, cocoa, and tree nut sectors continue to be core industries for Root Capital lending, composing 83% of our average balance ($42.8M) in Q3 2019 relative to 76% ($40.6M) in Q3 2018. Loans to coffee businesses represent more than two-thirds of our average portfolio balance at $37.1M (72%), followed by loans to cocoa businesses at $3M (6%) and loans to tree nut businesses at $2.7M (5%). In these core sectors, our disbursements in Q3 2019 were $21.5M, a 22% increase compared to Q3 2018.

Root Capital's coffee lending activities remained strong in Central and South America. In Colombia, we increased our financing of coffee cooperatives by 43% year-over-year—vital support as local communities continue their recovery from decades of civil war. Since the start of 2019, we've added four new lending clients in the country while also extending larger lines of credit to existing clients like Selecto Exporters, which is profiled at the end of this report. Our lending activities in Peru have also grown, reflected by a 12% increase in disbursements and 8% growth of our average balance relative to Q3 2018. In the face of persistent instability in Nicaragua and Honduras, we have maintained lending operations. While the political situation has resulted in lower lending activity relative to previous years, we continued to disburse funds and maintained almost $4M in average balance across these two countries this quarter. As many commercial and social lenders decrease or cease their operations in these challenging environments, Root Capital's support for our clients is more important than ever.

In Africa, we continued expanding our lending activities in value chains and countries that are core to our financial and impact goals. In West Africa, we are actively exploring growth opportunities in the cocoa sector, with a focus on Ghana and Côte d'Ivoire. Disbursements in the region increased by more than 200% from Q3 2018 to Q3 2019, while our balance in the region more than doubled during that same period. In East Africa, we are continuing to grow our presence in the Democratic Republic of the Congo (DRC), where we've increased disbursements by 73% year-over-year and grown our average balance in the country's coffee sector by 82%. Violence and the Ebola epidemic persist in the DRC, making it increasingly difficult for our clients to find financing from other lenders. Our continued support means that these enterprises can access premium markets and improve livelihoods for the thousands of farming families that they support. In Rwanda and Kenya, we see continued demand in our core coffee and macadamia nut sectors, as well as in local value chains like sorghum where there is significant opportunity to drive impact.

Portfolio Quality

At the end of the second quarter, our Portfolio-at-Risk (PAR) greater than 90 days remained stable at $6.2M (12.7%), from $6.2M (11.7%) last quarter, but improved compared to the end of Q3 2018, when our PAR was $6.6M (13.4%). During the third quarter, our collections efforts yielded $763,000 in recoveries from written off loans, resulting in improvements to our trailing 12-month net write-off ratio—4.2% as of Q3 2019, relative to 4.7% at the end of Q2.

Advisory Services

In Q3 2019, we continued to provide vital training to rural enterprises in hard-to-reach areas. Across our portfolio this quarter, we expanded implementation of our mobile advisory services—which help enterprises digitize data collection and analysis using relatively simple tools like tablets and cloud storage. Root Capital has been piloting and fine tuning these services in Latin America since 2014, and their usage among our clients increased significantly across the region in Q3. In particular, enterprises are increasingly using these mobile solutions for inventory management, quality assurance, and improved agronomic technical assistance.

We are in the process of expanding our mobile advisory services in Africa where, this quarter, we launched an inventory management tool for rice mills in the Senegal River Valley. In Q3, we also conducted diagnostics at Rwandan coffee cooperatives to prepare for implementation of tailored digital tools that will improve the businesses' internal inspections and certification management.

Root Capital remains committed to helping early-stage enterprises enhance their creditworthiness so they can access more financing and grow into resilient businesses. In Mexico and Central America, under our partnership with the Puma Energy Foundation and the Trafigura Foundation, we developed new methodologies to meet the needs of these early-stage enterprises. By improving their understanding of financial fundamentals, we are helping them grow into sustainable businesses capable of taking on financing from Root Capital and other lenders in the near future.

Financial Results

Through the end of Q3, Root Capital's surplus of $1.6M compares favorably to a $1M deficit through the third quarter of 2018. While our smaller lending portfolio generated $600,000 less revenue than through Q3 2018, this was offset by a $600,000 year-over-year improvement in net provisioning expense. Root Capital's grant and contribution revenue increased from $8.8M through Q3 2018 to $11.5M in 2019, inclusive of $3.2M in unrestricted net assets raised through the net asset campaign.

Root Capital's $55.4M outstanding lending portfolio was supported by $12.8M in unrestricted net assets—a 32% increase from the same period last year—and $10M in subordinated debt, resulting in a debt-to-equity ratio of 2.6x as of the end of the third quarter. In addition, our future programmatic activity is supported by $14.1M in grant-funded net assets. These are comprised of $4.4M of temporarily restricted net assets and $9.7M in conditional grants that will be added to our net asset balance in future periods as we meet specified conditions and milestones.

Conclusion

Root Capital spent its first 20 years building and crowding in the agricultural finance market—and we aren't slowing down. With climate change, regional insecurity, and record-low coffee prices affecting so many of our clients, there's more work to be done. We look forward to tackling these challenges with support from our investors, donors, and other partners. Together, we can build more prosperous, inclusive, and resilient rural communities.

2019 Dashboard

Results	
	Impact
190	Businesses Reached [1]
47%	Percent Gender Inclusive Businesses
649K	Farmers Supplying Businesses
41%	Percent Woman Farmers
16K	Employees Reached
45%	Percent Woman Employees
$1.1B	Purchases from Farmers
$1.3B	Total Sales for the Businesses
725K	Sustainable Hectares under Management
	Lending Program
$92.2M	Loan Disbursements
$51.7M	Average Outstanding Portfolio Balance [2]
$385K	Average Outstanding Balance per Active Loan [2]
12.7%	Portfolio-at-Risk Over 90 Days [2,3]
4.2%	Net Write-off Ratio (Trailing 12 Months)
	Advisory Services
399	Businesses Served
2,435	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.*

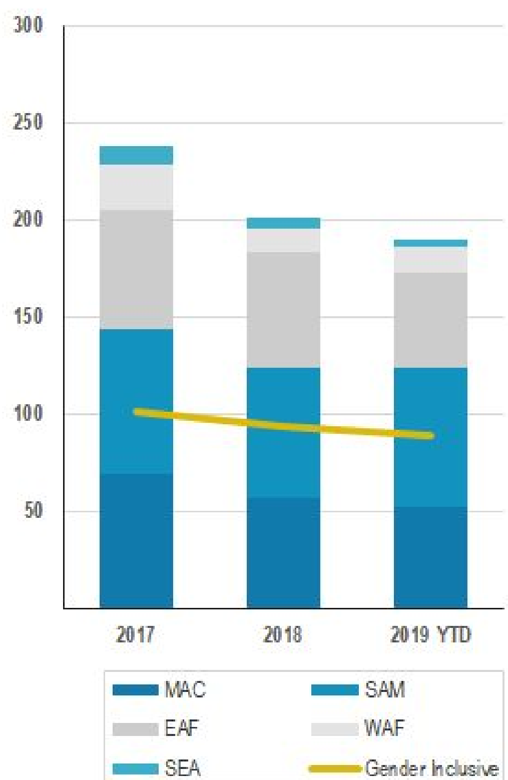
[2] *Results are for the current quarter only.*

[3] *Figures represent performance as of the last day of the quarter.*

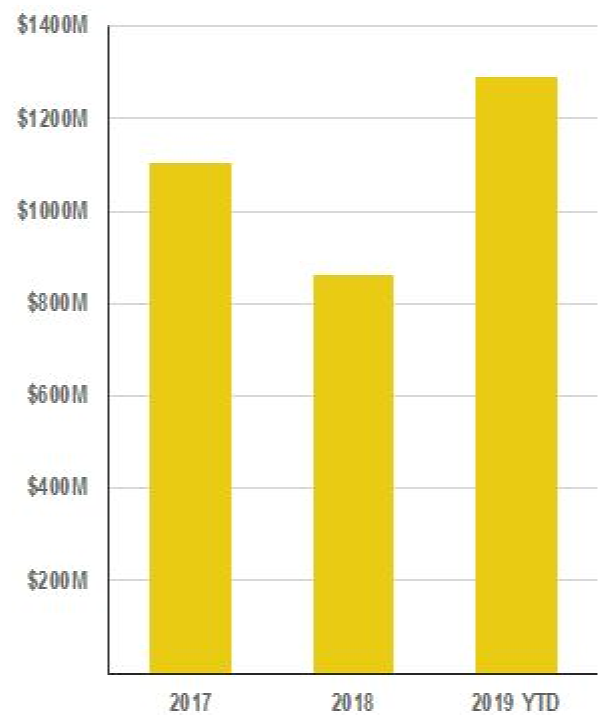
PORTFOLIO PERFORMANCE

Impact

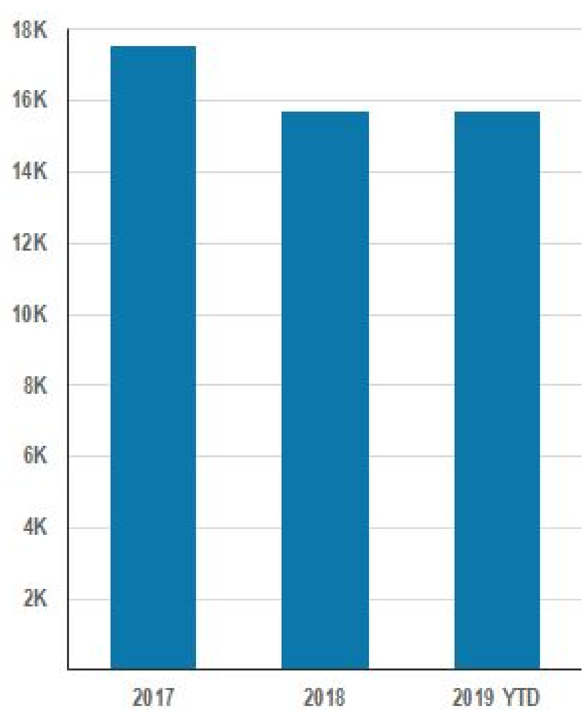
Businesses Reached by Region



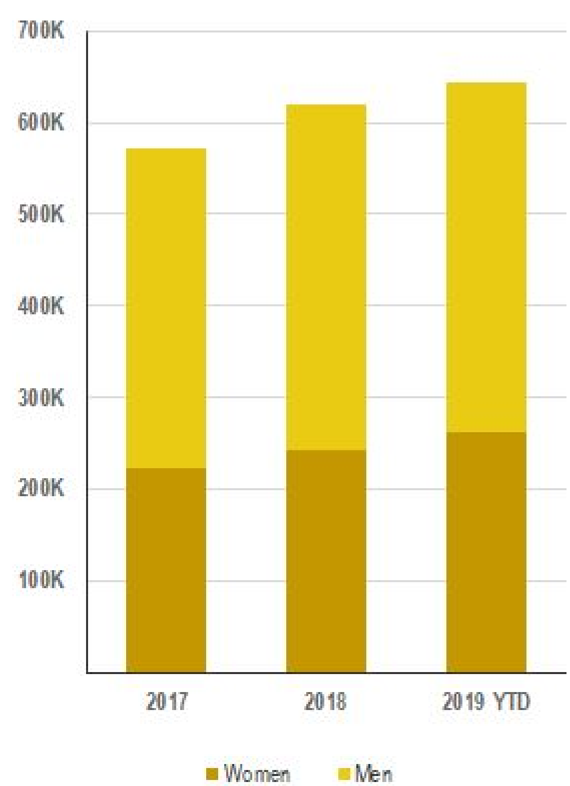
Total Businesses' Sales



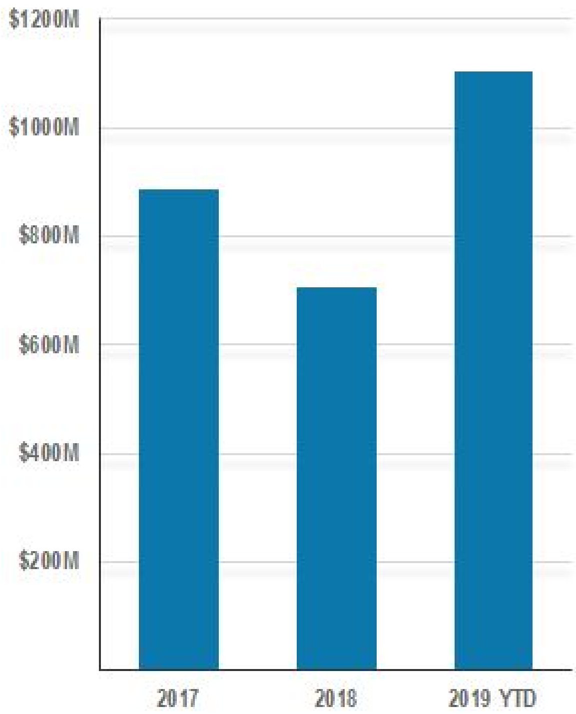
Employees Reached



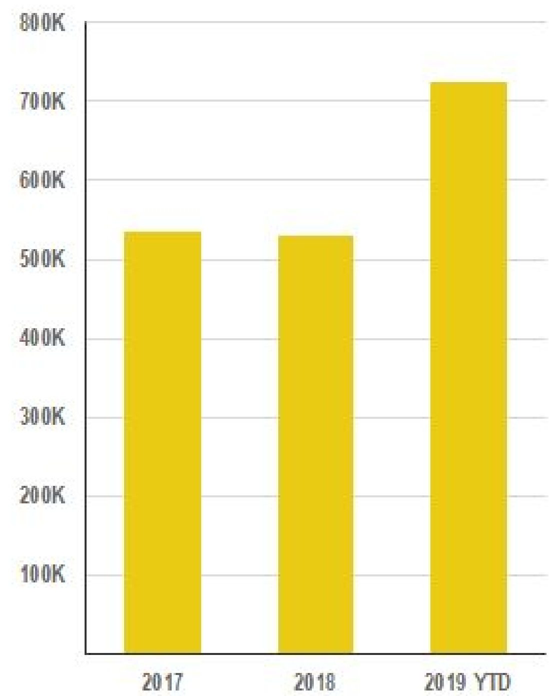
Farmers Supplying Businesses



Purchases from Farmers

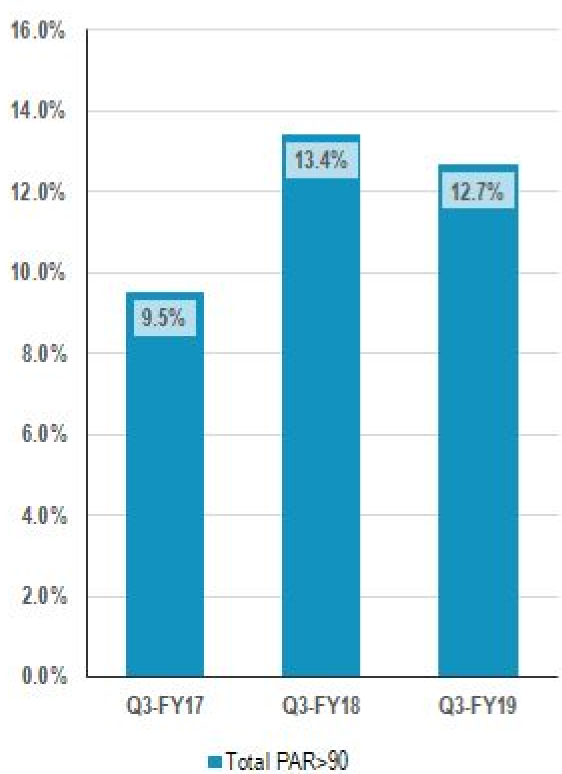


Sustainable Hectares Under Management

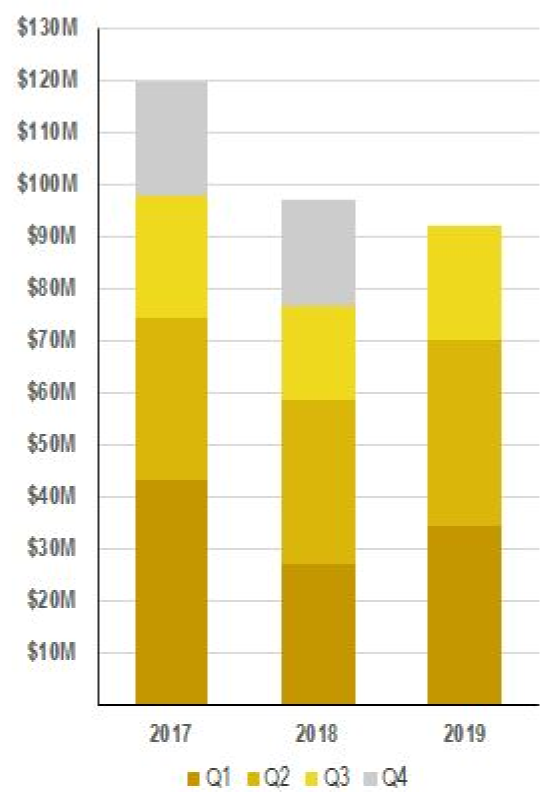


Lending & Advisory Services

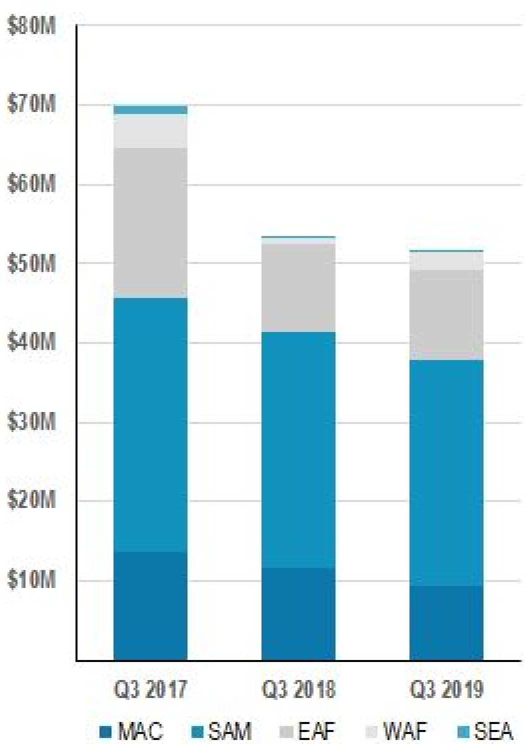
Portfolio at Risk > 90 Days



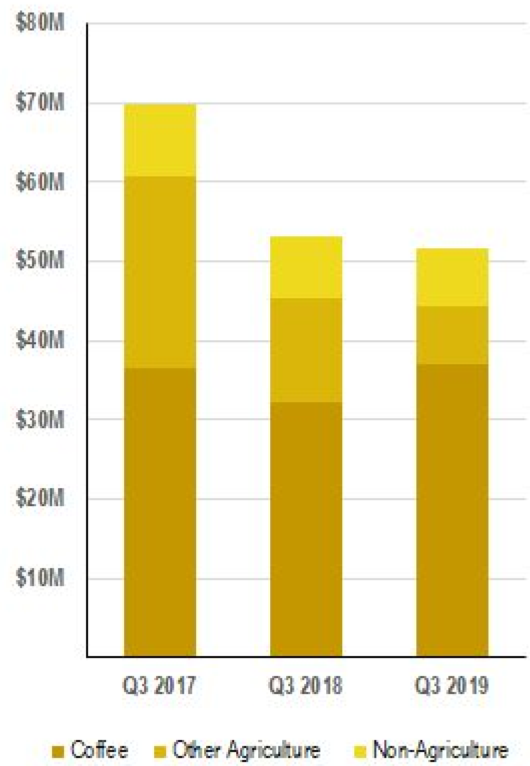
Loan Disbursements



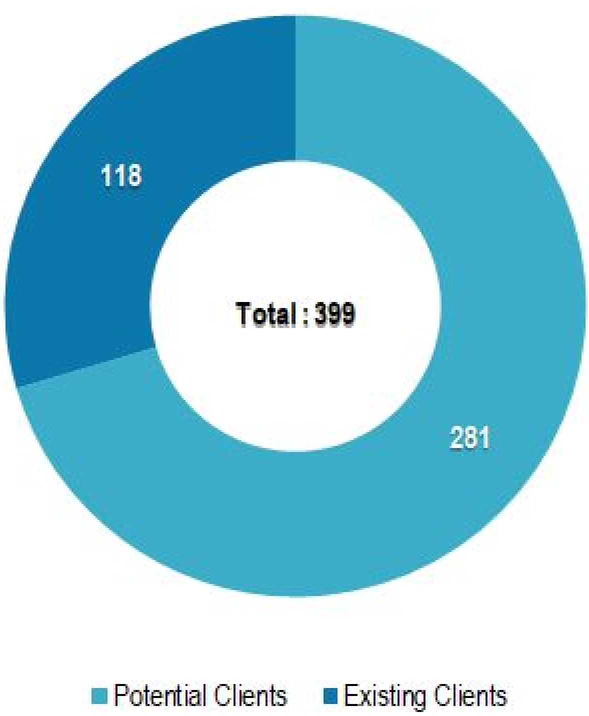
Average Balance by Region



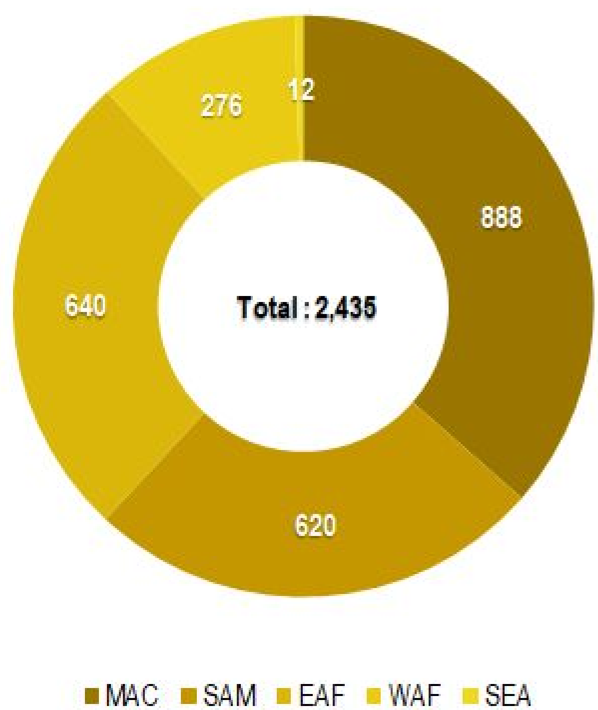
Average Balance by Industry



Businesses Served by Advisory (through Q3)



Days of Training Delivered (through Q3)



Balance Sheet & Statement of Activities

Balance Sheet		
		As of Sept 30th
Millions of USD	2019	2018
Cash and Short-Term Investments	37.1	34.4
Loans Receivable	55.4	54.6
Allowance for Credit Losses	(10.5)	(9.3)
Loans Receivable, Net of Allowance	44.9	45.3
Other Assets	7.9	15.2
Total Assets	**89.9**	**94.8**
Senior Debt	58.4	63.2
Subordinated Debt	10.0	8.5
Other Liabilities	4.4	7.2
Total Liabilities	**72.7**	**78.8**
Unrestricted Net Assets	12.8	9.7
Net Assets with Restrictions	4.4	6.3
Total Net Assets	**17.1**	**16.0**
Total Liabilities & Net Assets	**89.9**	**94.8**
Debt-to-Equity Ratio*	2.6 x	3.5 x
Grant Net Assets**	14.1	15.7

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

*** Grant Net Assets include $4.4M of net assets with restrictions, as well as $9.7M 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. As of Q3 2018, the balance of conditional grants was $9.4M.*

Statement of Activities

Millions of USD	Year-to-date as of Sept 30th 2019	2018
Revenue		
Grant Revenue	6.7	5.7
Contribution Revenue	4.8	3.1
Lending Revenue	4.3	4.9
Interest Income	.3	.1
Total Revenue	**16.1**	**13.9**
Expenses		
Operating Expenses	11.1	10.9
Provisioning Expense	2.1	2.7
Interest Expense	1.2	1.2
Total Expenses	**14.5**	**14.8**
Surplus / (Deficit)	1.6	(1.0)

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.

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).

Members of ASOTBILBAO, a supplier to Selecto Exporters.

Client Profile

Selecto Exporters

Location: Manizales, Colombia

Selecto Exporters was founded in 2005—not an easy time to start a business in Colombia. The decades-long civil conflict continued to claim lives, and a formal peace agreement would not be signed for another eleven years. The conflict took place predominantly in rural communities, turning farms into battlefields and forcing many to flee to cities. With little infrastructure for exporting coffee from many of these regions, those who stayed were forced to farm coca for the cartels and rebel groups to refine into cocaine.

While other coffee businesses weathered the conflict by buying from private coffee estates located in relatively secure areas, Selecto set out to have a positive impact on the hardest-hit communities. Over the last three years, we have provided Selecto with $3.4M in financing to support their operations in the vulnerable regions of southern Colombia. Selecto uses this working capital to buy coffee from farmer-led organizations—ensuring on-time payments to producers—then sells directly to international buyers with a particular focus on organic and Fair Trade coffee. These certified coffees carry with them premium prices that raise incomes, meaning farmers don't need to leave their homes or resort to coca to survive.

With our help, Selecto is providing thousands of farmers in post-conflict Colombia with the economic opportunity they need to rebuild their communities and their lives.