

Performance Report

Q2 2022



Juliman, a worker at the Kopepi Ketiara Cooperative, moves coffee at the business' warehouse in Sumatra, Indonesia. Root Capital has supported Ketiara with financing and training since 2014, helping the business double its sales over that time.



root capital

Overview

Agricultural businesses make up the backbone of rural communities in developing and emerging economies. They purchase, process, and sell farmers’ crops at market, providing a springboard out of poverty and a lifeline to economic security. What’s more, investing in agricultural businesses has proven to be one of the most effective ways to address the greatest challenges of our time like climate change, gender inequality, and lack of opportunity for the next generation. Since 1999, Root Capital has provided these businesses with access to finance and business training so they can unlock their full potential.

Impact

Through the second quarter of 2022, Root Capital financed 171 businesses reaching 509,000 farming families. Since the start of the year, these businesses have generated over \$746M in income for smallholder farmers. Across our portfolio, 57% of businesses we have financed were gender inclusive, 60% were climate action leaders, and 35% met both criteria, demonstrating our clients’ significant commitment to the overlapping goals of promoting gender equity and deepening climate resilience.

As we continue to expand access to finance for rural businesses, 92% of our active loans this quarter filled gaps unmet by commercial lenders. The remaining 8% supplemented financing options available in the broader market.

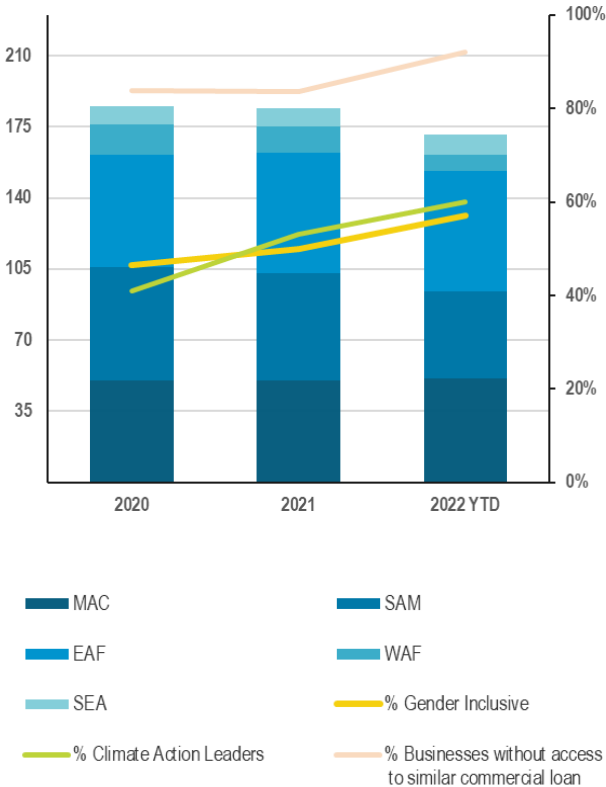
Root Capital accompanies our financing with business training to amplify the impact of our lending as we build the long-term resilience of rural businesses. So far in 2022, we have trained staff from 247 enterprises on skills to improve financial management, provide agronomic support to farmers, adapt to climate change, and more.

About Root Capital

Root Capital is a nonprofit whose mission is to grow rural prosperity and build the resilience of farming families around the world. We support the growth of agricultural enterprises with access to credit and training so they can transform rural communities.

Lending Impact

Businesses Reached (Lending Program)



Portfolio Performance

In Q2 of 2022, our average portfolio balance of \$60.5M was similar to Q1 as our seasonal lending shifted from Central America to financing coffee harvests in South America and East Africa.

Within South America, Root Capital’s lending activity experienced strong growth this year, with disbursements up 23% relative to the first half of 2021. In Peru, Root Capital’s largest country in terms of lending volume, disbursements this quarter were up 45% compared to the same period last year. This increased financing is allowing clients to take advantage of the current high coffee price and thereby pass on benefits to their farmers. Our financing is increasingly important in Peru as the government winds down pandemic-related stimulus programs for agricultural businesses.

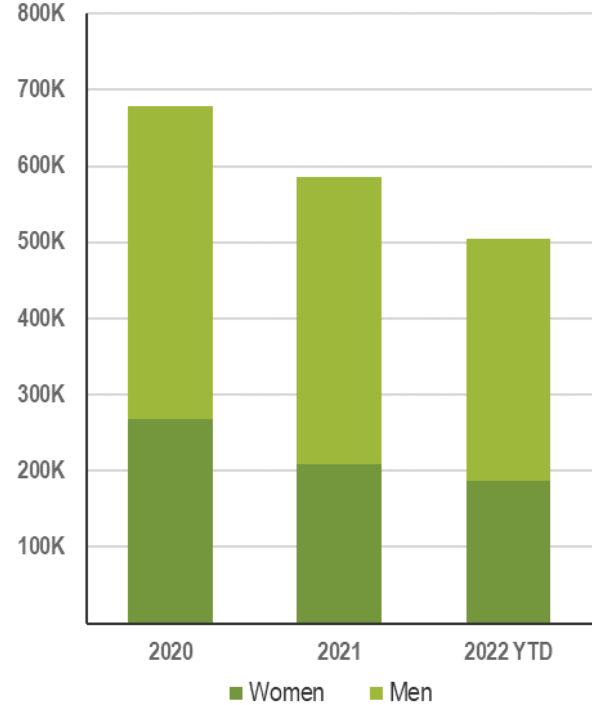
Portfolio performance was similarly encouraging in East Africa, where our lending increased significantly compared to last year as we welcomed five new clients. Lending was particularly strong in Uganda where disbursements were up by 58% YTD in this rapidly growing segment of our portfolio. Rwanda coffee disbursements increased at a more moderate 8% year-over-year.

The scale of our global lending program continues to expand driven by high coffee prices and persistent demand for financing from underserved agricultural businesses.

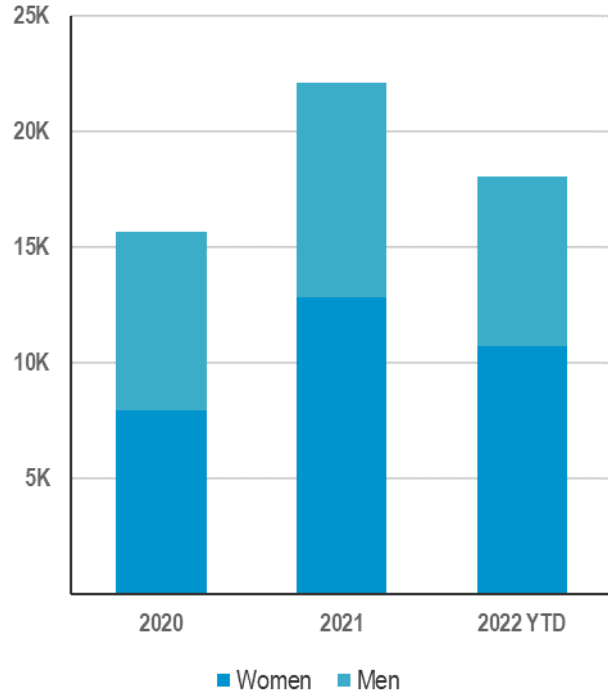
Portfolio Quality

As our lending activity grows, our portfolio remains strong. As of the end of Q2, our

Farmers Supplying Businesses



Employees Reached



Portfolio-at-Risk greater than 90 days was in a healthy position despite a slight shift upward to \$2.0M (3.1% of the loan portfolio outstanding) vs. \$1.7M (2.7%) at the end of Q1 and \$1.5M (2.8%) at the end of Q2 2021. Over the past twelve months, we wrote off \$3.0M of past due loans and recovered \$1.8M on nonperforming loans, resulting in a trailing 12-month net write-off ratio of 2.0%.

Advisory Services

This quarter, we hosted in-person training of trainers in South America and sub-Saharan Africa. Since the start of the pandemic, nearly a quarter of our advisors are new as we have grown our training program through hybrid learning. These convenings provided us with a critical opportunity to align and coordinate our ever-expanding team.

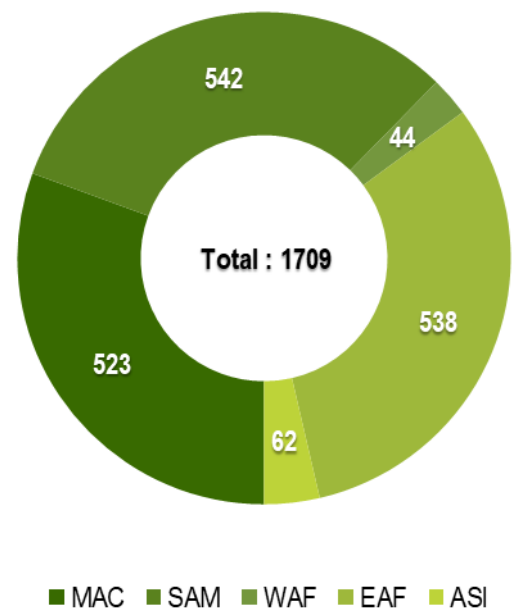
We continued to grow our Digital Business Intelligence (DBI) service to improve efficiencies across our clients' core functions and designed to fit their specific contexts. These services are highly tailored to the needs and capacities of our clients in different regions. In East Africa, we worked with clients to digitize farmer surveys and launched commercial monitoring pilots. In Colombia, we released new tools to aid in coffee clients' quality control and tracking of purchases. In Peru, our Cultivar Data Platform is being used to scale the impact of DBI as clients can store, transform, analyze and share data for decision making. In Mexico and Central America, our clients are designing digital surveys to collect best practice data for agronomic and climate resilience analysis. By the end of Q2, 53 Root Capital clients were using digital data for business operations across every region where Root Capital operates.

Purchases from Farmers and Client Businesses' Sales



Advisory Impact

Days of Training Delivered Through Q2



Financial Results

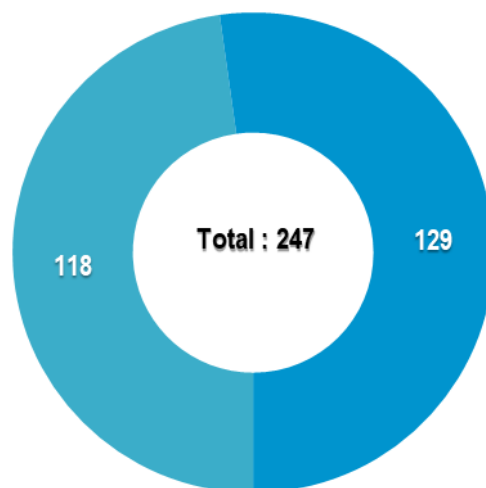
At the end of another strong quarter, Root Capital’s \$65M lending portfolio grew \$10M over Q1 2021 and was supported by \$45M in unrestricted net assets, \$8M in subordinated debt, and \$49M in senior notes, resulting in a debt-to-equity ratio of 1.2x. In addition, we hold \$25M in grant-funded restricted net assets to support our future programmatic activity.

Through Q2 2022, our lending portfolio generated revenue of \$3.5M compared to \$3.0M in 2021 reflecting the growth in our lending portfolio. Provisioning expense was positively impacted this year by \$1.0M of recoveries on previously written-off loans and continued strong portfolio quality. Our grant revenue was up to \$4.8M compared to \$3.7M through Q2 2021 as we return to in-person training where allowed. We recognized \$28.4M of contribution revenue this year driven by several generous donations, including a gift in Q1 from MacKenzie Scott.

Conclusion

When agricultural businesses have the resources they need to grow and withstand shocks, they improve the livelihoods of families in some of the world’s most vulnerable communities. Root Capital’s strong financial performance through the first half of 2022 paves the way for us to unlock the power of small and growing businesses around the world. We are grateful for our community’s ongoing support as we transform the world.

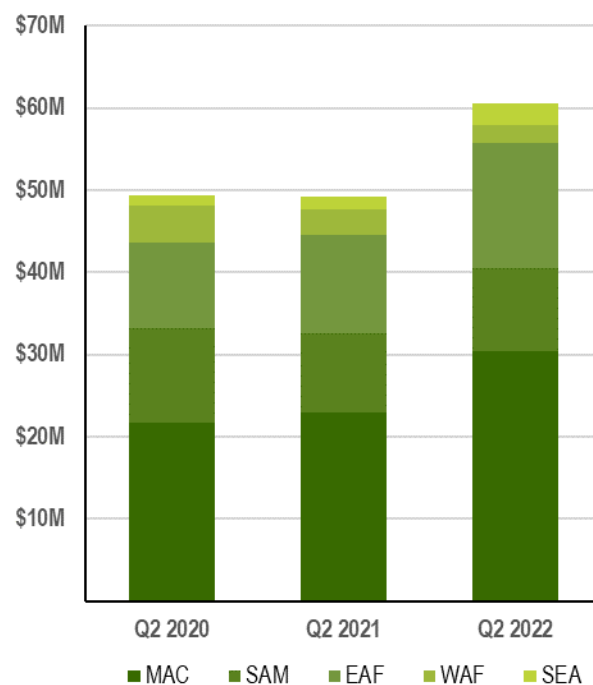
Businesses Served by Advisory Through Q2



■ Existing Lending Clients ■ Potential Lending Clients

Portfolio Performance

Average Balance by Region



CLIENT HIGHLIGHT: JKCC General Supplies Limited || Uganda

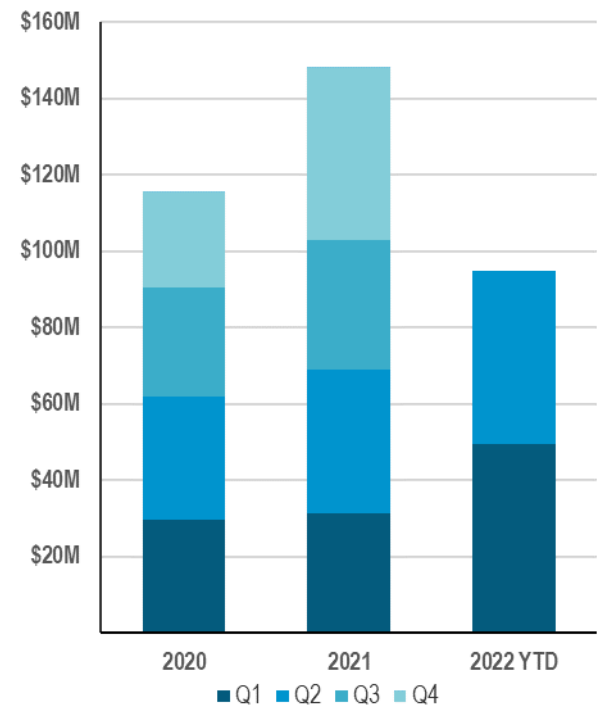


As climate change heats the globe, the most common species of coffee, Arabica, is under threat. By 2050, 50% of the world's arabica coffee farms may struggle to grow the crop due to increasing temperatures and inconsistent weather. In some regions, including East Africa, a more heat-tolerant species of coffee, Robusta, may present a pathway for farmers to stay in coffee while weathering future climate challenges.

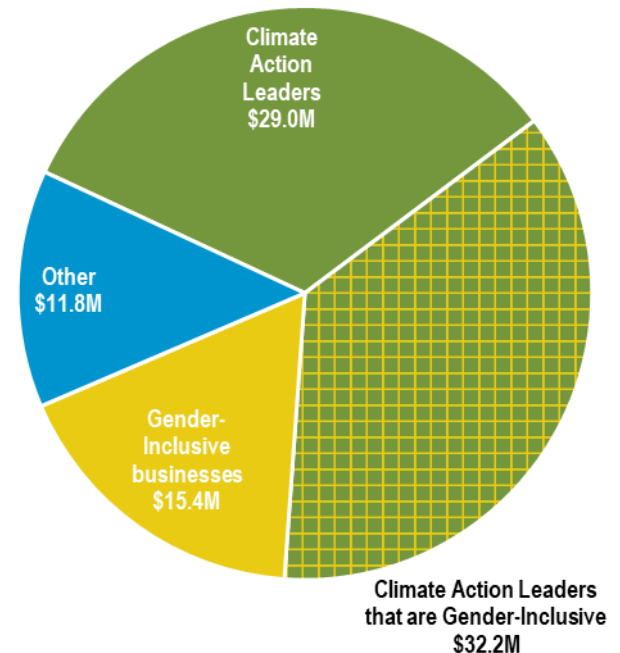
JKCC General Supplies Limited is connecting more than 3,700 Robusta coffee farmers—a quarter of whom are under the age of 35—with higher prices for their crops. In 2021, Root Capital provided our first loan to JKCC for \$500K, which we recently renewed for the upcoming harvest.

This quarter, Root Capital also provided JKCC with a \$20K resilience grant to promote gender inclusion and opportunities for young people. Through this grant, JKCC is launching a line of specialty coffee produced by their women members, training 1,500 women on entrepreneurial skills, and sending 50 women to a national coffee show. JKCC is also using the grant to form youth committees, complemented by training from Root Capital advisors on youth and leadership development to build the next generation of rural leaders. Together, Root Capital and JKCC are ensuring a brighter future alongside coffee farmers in Uganda.

Total Loan Disbursements



Disbursements to Clients by Program



Impact Dashboard

Impact Results—Through Q2		
2022	2021	
300	317	Total Businesses Reached
Advisory Program		
247	278	Businesses Served by Advisory
1709	1837	Days of Training Delivered
37%	35%	→ Percent Woman Participants
50%	46%	→ Percent Participants Under the Age of 35
Lending Program		
171	162	Businesses Reached by Lending ¹
58%	51%	→ Percent Gender-Inclusive Businesses ²
60%	49%	→ Percent Climate Action Leaders ²
509K	570K	Producers Reached
37%	36%	→ Percent Woman Farmers
19K	17K	Employees Reached
56%	56%	→ Percent Woman Employees
\$746M	\$814M	Purchases from Farmers
\$884M	\$967M	Total Sales for the Businesses
479K	519K	Sustainable Hectares under Management
\$94.8M	\$69.0M	Loan Disbursements
\$47.5M	\$33.9M	→ Disbursements to Gender-Inclusive Businesses ²
\$61.1M	\$36.7M	→ Disbursements to Climate Action Leaders ²

¹ "Businesses Reached" includes the total number of clients with an outstanding loan balance at any point in the year-to-date period.

² A number of our client businesses are both Gender Inclusive and Climate Action Leaders.

See Terms and Acronyms on page 10 for definitions.

Balance Sheet & Statement of Activities

Balance Sheet		
	As of June 30th	
<i>Millions of USD</i>	2022	2021
Cash and Short-Term Investments	50.8	18.6
Loans Receivable	64.7	54.7
Allowance for Credit Losses	(2.9)	(2.9)
Loans Receivable, Net of Allowance	61.8	51.8
Other Assets	21.3	12.1
Total Assets	133.9	82.5
Senior Debt	48.6	43.2
Subordinated Debt	7.6	5.1
Other Liabilities	7.2	5.7
Total Liabilities	63.5	53.9
Net Assets Without Donor Restrictions	45.0	15.9
Net Assets With Donor Restrictions	25.4	12.8
Total Net Assets	70.4	28.6
Total Liabilities & Net Assets	133.9	82.5
Debt-to-Equity Ratio	1.2x	3.0x
Grant Net Assets*	28.8	16.3

* 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 June 30th

Millions of USD

2022

2021

Revenue

Grant Revenue	4.8	3.7
Contribution Revenue	28.4	.6
Lending Revenue	3.5	3.0
Total Revenue	36.7	7.3

Expenses

Operating Expenses	8.8	7.8
Provisioning Expense	.1	(1.4)
Interest Expense	.5	.5
Total Expenses	9.4	7.0

Surplus	27.4	.3
----------------	-------------	-----------

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.

© 2022 Root Capital. All rights reserved.

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.

Climate Action Leader: An active lending client making substantial contributions to climate change mitigation and/or adaptation by: reducing atmospheric greenhouse gas concentrations through natural climate solutions like reforestation, and/or reducing climate risk and building adaptive capacity within their communities.

Contribution Revenue: Revenue without donor restrictions generally received from individuals or foundations.

Debt-to-Equity: The ratio of senior and subordinated debt to unrestricted net assets.

Gender-Inclusive Business: Women make up more than 30% of enterprise farmer suppliers and employees OR the enterprise is women-led and women make up more than 20% of enterprise farmers suppliers and employees.

Grant Revenue: Philanthropic donations, generally from foundations or governments, used in the current fiscal year.

Interest Expense: Interest expense incurred on debt.

Interest Income: Interest revenue generated on cash and investments.

Lending Revenue: Revenue generated from our lending activities, comprising 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 and loan portfolio guarantee fees.

Region Acronyms: MAC (Mexico and Central America), SAM (South America), EAF (East Africa), WAF (West Africa), SEA (Southeast Asia).