



Root
Capital



Performance Report

Q4 2024

Root Capital staff and partners visit with coffee clients in Peru.



About Root Capital

Root Capital is an impact investor that provides financing and business training to agricultural enterprises in Africa, Asia, and Latin America. Since 1999, we have loaned over \$2 billion to more than 800 businesses that are too big for microloans but too small for commercial lenders, and have trained more than twice as many businesses. As these businesses succeed and scale, they become engines of impact for local communities, raising incomes, creating jobs, expanding opportunities for women and young people, preserving nature, and building rural prosperity.

Overview

As global coffee prices neared all-time highs in 2024, Root Capital met the growing credit needs of small and growing agricultural businesses. In particular, we expanded our portfolio through client acquisition, continuing to prioritize access for early-stage businesses. Root Capital also continued to pair its lending support with critical advisory services tailored to specific client needs. While lending portfolio performance rebounded in 2024 following a dip the prior year, a challenging fundraising landscape and increased risk in the portfolio resulted in a deficit that necessitated difficult financial decisions. We made adjustments to our cost structure to ensure that Root Capital could continue its impact and accompany clients and enable their growth and resilience over the long haul.

Impact

Root Capital financed 213 agricultural enterprises in 2024, reaching over 460,000 smallholder farmers. These businesses in turn generated \$787 million in income for farmers and their families. Of these businesses, 51% were climate action leaders, organizations that make substantial contributions to climate change mitigation and/or adaptation, and 64% were gender-inclusive, with significant involvement of women farmers, employees, and/or leaders. Many of our clients prioritize both climate and gender equity, with 35% meeting both criteria.

Additionally, Root Capital trained leaders and employees from 415 businesses, equipping them with skills to enhance financial management, provide agronomic support to farmers, and otherwise

build resilience in their businesses and their communities. In Q4 2024, Root Capital loans enabled 87% of clients to meet financing gaps otherwise unaddressed by commercial markets. The remaining 13% supplemented their capital needs through local markets.

Portfolio Performance

Global coffee prices increased significantly in the second half of the year, driven by increased demand amid ongoing supply constraints, which were particularly affected by climate-related shocks such as droughts in Brazil and frost in Vietnam that decreased coffee production. Elevated prices resulted in clients requiring greater liquidity to finance crop purchases from farmers. Root Capital helped clients meet these funding demands, linking local farmers with higher global prices.

Disbursements increased by 15% in 2024 as compared to 2023, reflecting the demand for critical financing as businesses took advantage of the higher prices.

In the fourth quarter, the seasonal coffee harvest began in Mexico and Central America, where client disbursements reached \$8.4 million as compared to \$7.0 million in the prior year. This activity marks a notable increase from the prior year's performance, with 28 loans closed this quarter compared to 21 closed in Q4 2023, reflecting strong client engagement and demand for financing.

In Africa, we disbursed \$6.6 million within the quarter. Disbursements included \$3.4 million to cocoa clients in the Democratic Republic of the Congo, a year-on-year increase of 170%. With armed conflict in nearby areas continuing to impact some clients' operations, we remain in close contact with these vulnerable clients as we support them through the recent volatile escalation of the regional conflict.

Lending in Indonesia experienced the most significant year-over-year growth, with Q4 disbursements surging to \$3.8 million as compared to \$885K in 2023. This recovery follows a challenging 2023, driven in part by obstacles clients faced in maintaining certifications, the loss of which could negatively affect their ability to sell to premium markets. In response, Root Capital swiftly designed tailored advisory services to help businesses manage certifications, which enabled them to purchase more coffee from farmers and improve their overall market positioning.

Portfolio Quality

At the end of Q4 2024, the Portfolio-at-Risk greater than 90 days balance was \$2.3 million (7.6% of the outstanding portfolio), as compared to \$2.7 million (5.9%) the previous quarter. Most of Root Capital's portfolio, including at-risk loans, is backed by guarantees from our development partners. These guarantees reduce our risk exposure and enable us to continue to expand lending in challenging, high-impact markets. Over the past 12 months, we wrote off \$5.5 million in past due loans, 75% of which was supported by guarantees. Offsetting these write-offs, we recovered \$4.5 million of written-off principal, which brought our trailing 12-month net write-off ratio to 2.3%.

Advisory Services

Root Capital advisory services support clients in building resilient businesses through management and agronomic training and technical assistance. In late 2024, we prioritized helping clients build market accessibility, whether through adapting to the complex provisions of the European Union Deforestation Regulation (EUDR) or obtaining and maintaining Rainforest Alliance and other certifications that yield higher prices for smallholder farmers.

EUDR Compliance Support

With approximately 90% of our clients holding EU contracts, compliance with the upcoming EUDR remains a critical priority. (Initially set to take effect in December 2024, the regulation's implementation has been postponed by one year, allowing agribusinesses additional time to prepare.) In partnership with our clients, in 2024 we developed a new advisory service that provides education on EUDR requirements supports collection of data for compliance and ongoing monitoring of deforestation risks. Efforts were focused in countries where clients' risk was highest, including Uganda and Peru.

Certification Advisory in Indonesia

Certifications unlock additional market access for clients while improving incomes for smallholder farmers. Due to shifting certification requirements and other challenges, maintaining compliance requires constant attention and vigilance so as not to lose certified status. For our clients, the risk of lapsed certifications was particularly acute in Indonesia throughout 2023. In response, Root Capital implemented a program centered on Rainforest Alliance certification. This initiative leverages an open-source diagnostic tool to help clients identify gaps and strengthen certification management through agronomic and technical training for farmers, enhanced internal processes to improve traceability and data management, and strengthened internal controls for sustained compliance.

Some clients are working with Root Capital advisors to improve their systems for certification management and monitoring while others are leveraging our advisory services to become certified for the first time, which allows their farmers to access premium market opportunities. Beyond compliance, clients are beginning to internalize certification requirements as business best practices.

Financial Results

While Root Capital's net assets decreased by \$5.9 million in 2024, our balance sheet remains strong, with \$45 million in unrestricted net assets, high levels of liquidity, and low financial leverage of 1.3x.

Fundraising revenue was negatively impacted by changing strategies of several long-term partners as well as broader shifts in the philanthropic sector. We are adapting our fundraising strategy to meet these sector trends. In addition, provisioning expenses were higher than in 2023. While the majority of our portfolio is supported by loan guarantees, this year we provisioned for several large loans that were not covered, negatively impacting our net provisioning expense. The increased provisioning reflects Root

Capital's prudent risk management approach, which balances risk minimization with impact maximization for small and growing agricultural businesses that otherwise lack access to finance.

To address fundraising and risk challenges, Root Capital took measures to strengthen the organization's resilience. Starting in the second quarter, we implemented cost-saving measures to lower operating expenses for current and future periods. These measures focused on reducing staffing levels, non-essential travel, and consulting expenses.

While these measures helped mitigate financial pressures in 2024, continued focus on cost efficiency and revenue diversification will be critical throughout 2025. By maintaining prudent financial oversight and aligning resources with strategic priorities, Root Capital remains well-positioned to navigate future uncertainties while sustaining its mission-driven impact. In 2025, we will embark on a periodic strategy development process to ensure that Root Capital is best-situated to meet the evolving needs of its client agriculture businesses while strengthening the organization's position in the fundraising environment.

Conclusion

Q4 2024 reinforced the importance of adaptability and strategic focus. Root Capital enters 2025 committed to strengthening its portfolio of high-impact small and growing businesses, expanding advisory services to build client capacity, and ensuring its own long-term financial stability. This will allow continued support for agricultural businesses and the rural communities they serve for years to come.

Impact Dashboard

| IMPACT RESULTS THROUGH Q4 | | |
|---------------------------|----------|---|
| 2024 | 2023 | |
| 445 | 497 | Total Businesses Reached |
| Advisory Program | | |
| 415 | 465 | Businesses Served by Advisory |
| 4,862 | 5,141 | Days of Training Delivered |
| 43% | 39% | Women Participants |
| 46% | 45% | Participants Under the Age of 35 |
| Lending Program | | |
| 213 | 213 | Businesses Reached by Lending ¹ |
| 64% | 61% | Gender-Inclusive Businesses ² |
| 51% | 54% | Climate Action Leaders ² |
| 460K | 537K | Producers Reached |
| 39% | 35% | Women Farmers |
| 19K | 25K | Employees Reached |
| 61% | 65% | Women Employees |
| \$787M | \$788M | Purchases From Farmers |
| \$932M | \$934M | Total Sales for the Businesses |
| 411K | 445K | Sustainable Hectares Under Management |
| \$128.2M | \$111.4M | Loan Disbursements |
| \$79.5M | \$70.9M | Disbursements to Gender-Inclusive Businesses ² |
| \$71.5M | \$65M | 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 11 for definitions.

Balance Sheet & Statement of Activities

| BALANCE SHEET | | As of December 31 | |
|---|--------------|--------------------------|--|
| Millions of USD | 2024 | 2023 | |
| Cash and Short-Term Investments | 73.4 | 74.1 | |
| Loans Receivable | 30.5 | 31.4 | |
| Allowance for Credit Losses | (2.4) | (1.7) | |
| Loans Receivable, Net of Allowance | 28.1 | 29.7 | |
| Grants Receivable and Other Assets | 16.3 | 16.7 | |
| Total Assets | 117.9 | 120.4 | |
| Senior Debt | 51.0 | 40.5 | |
| Subordinated Debt | 6.3 | 6.8 | |
| Other Liabilities | 5.0 | 4.0 | |
| Total Liabilities | 62.3 | 51.2 | |
| Net Assets without Donor Restrictions | 45.1 | 51.0 | |
| Net Assets with Donor Restrictions | 10.5 | 18.2 | |
| Total Net Assets | 55.6 | 69.2 | |
| Total Liabilities & Net Assets | 117.9 | 120.4 | |
| Debt-to-Equity Ratio | 1.3x | 0.9x | |
| Grant Net Assets* | 17.2 | 26.6 | |

* Our grant net assets include net assets with restrictions and off-balance-sheet conditional grants. Reclassifications may have been made in prior periods to conform with the current period's presentation.

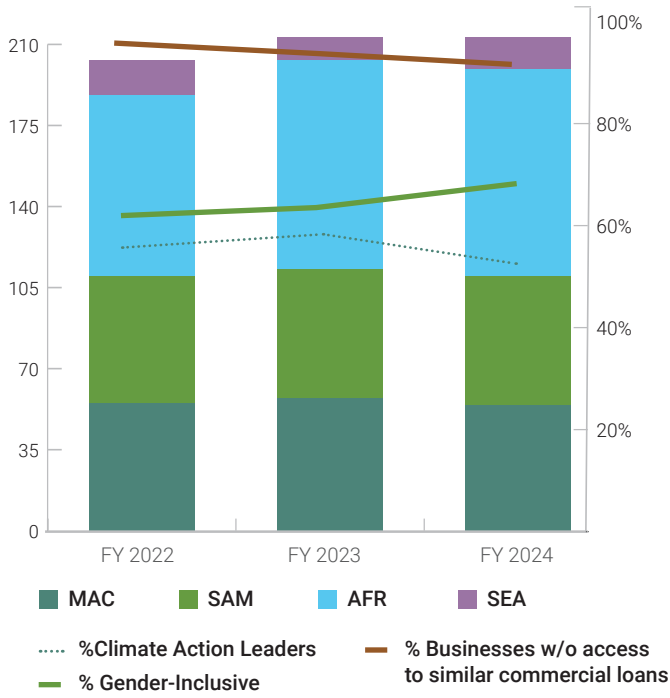
| STATEMENT OF ACTIVITIES | | As of December 31 | |
|---------------------------------|--------------|--------------------------|--|
| Millions of USD | 2024 | 2023 | |
| Revenue | | | |
| Grant and Contribution Revenues | 19.3 | 22.1 | |
| Lending Revenue | 5.0 | 4.8 | |
| Interest and Other Income | 2.9 | 2.5 | |
| Total Revenue | 27.3 | 29.4 | |
| Expenses | | | |
| Operating Expenses | 29.9 | 27.3 | |
| Provisioning Expense | 2.3 | (.4) | |
| Interest Expense | .9 | .8 | |
| Total Expenses | 33.2 | 27.8 | |
| (Deficit)/Surplus | (5.9) | 1.6 | |

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

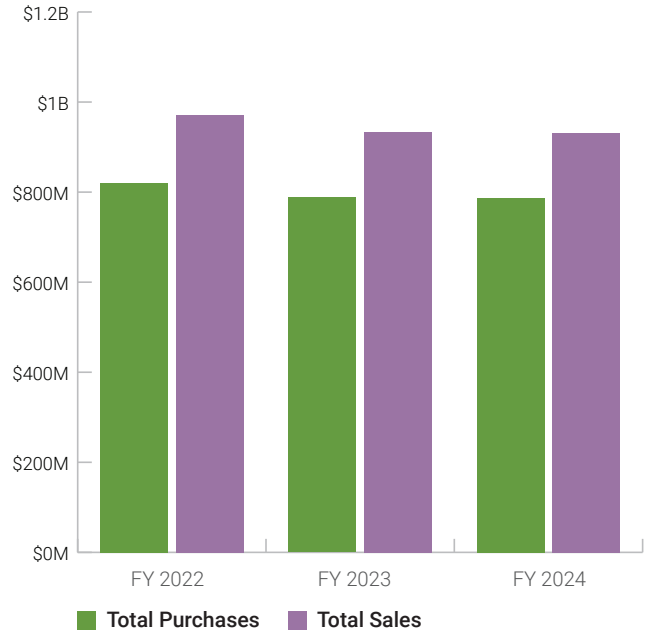
Performance

Lending Impact

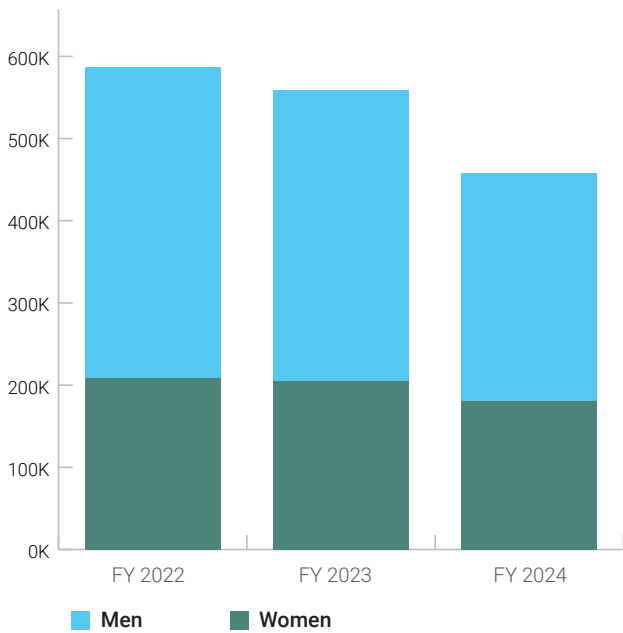
Businesses Reached (Lending Program)



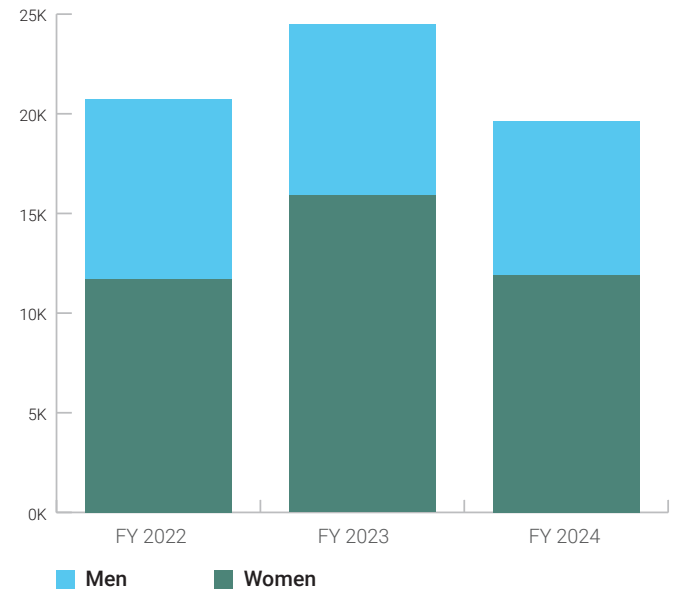
Purchases from Farmers and Client Businesses' Sales



Farmers Supplying Businesses

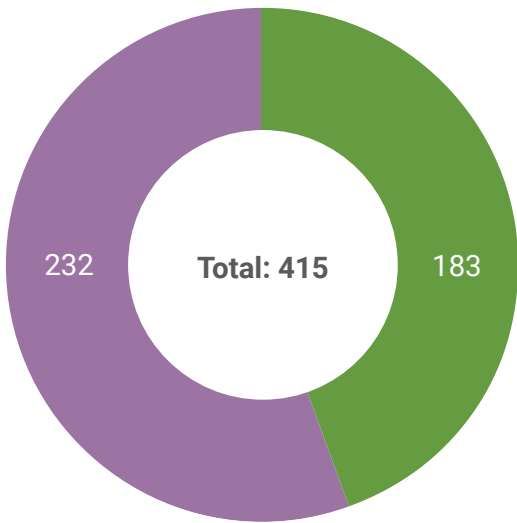


Employees Reached



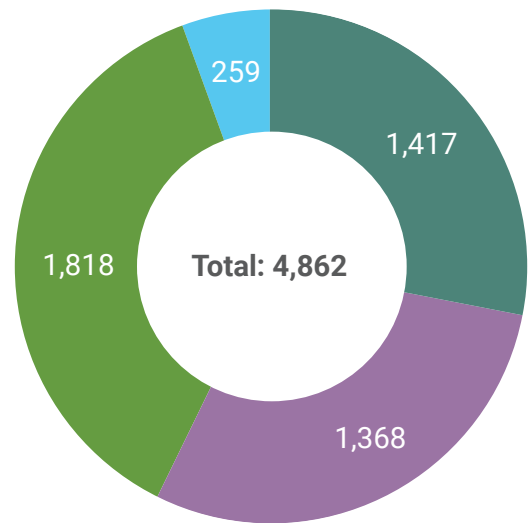
Advisory Impact

Businesses Served by Advisory Through Q4 2024



Existing Lending Clients Potential Lending Clients

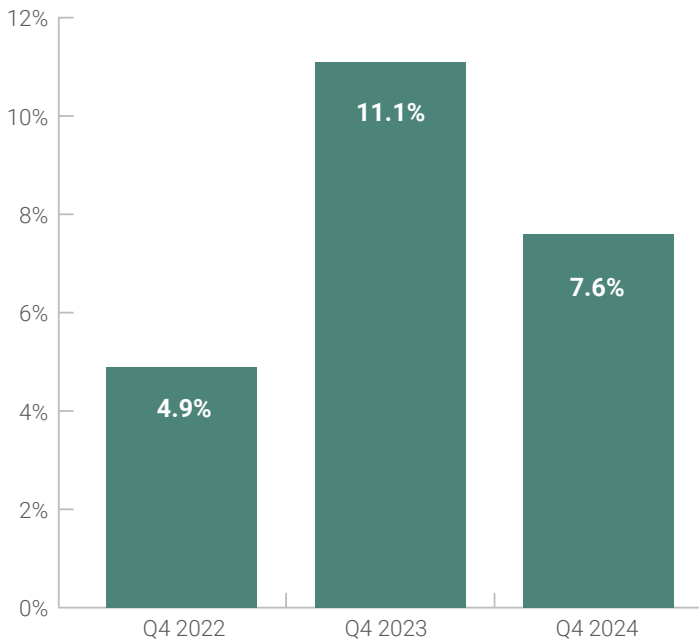
Days of Training Delivered Through Q4 2024



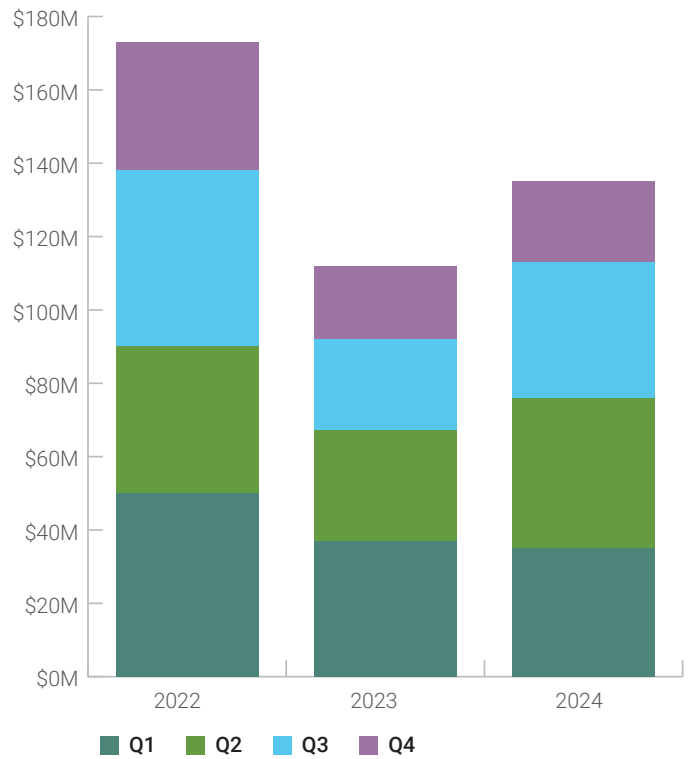
MAC SAM AFR SEA

Portfolio Performance

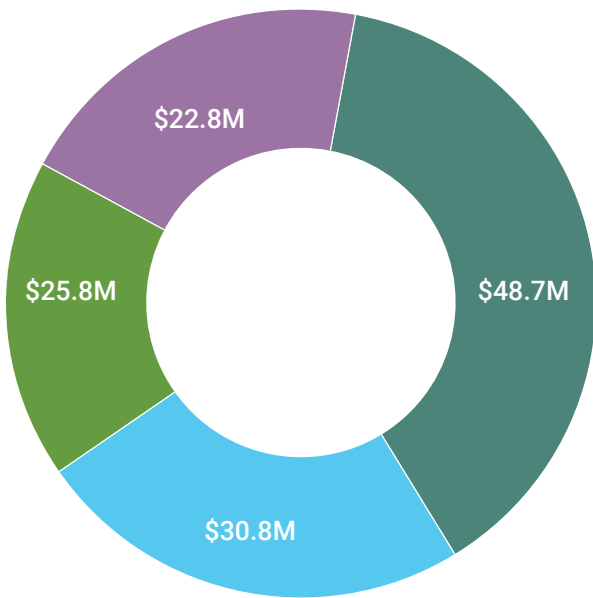
Portfolio at Risk > 90 Days



Total Loan Disbursements

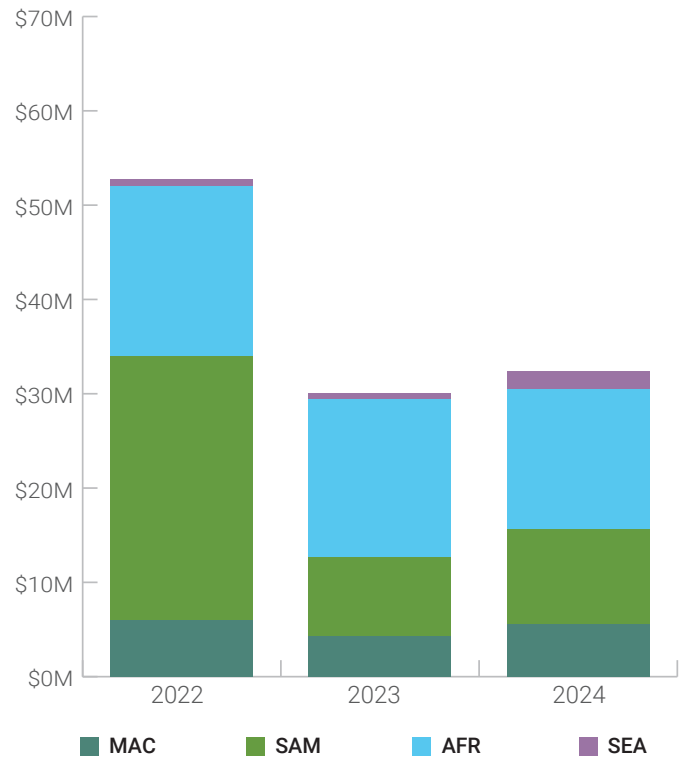


Disbursements to Clients by Program 2024



- Climate Action Leaders that are Gender Inclusive
- Gender-Inclusive Businesses
- Climate Action Leaders
- Other

Average Balance by Region



Disclosure

This 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 businesses reached to capture the number of businesses financed using our capital. Businesses reached are those that had an outstanding loan balance at any point in the reporting period. This is a cumulative metric; businesses 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), AFR (Africa), SEA (Southeast Asia).