

ITAM: Escuela de Negocios

A comprehensive look at the private equity industry in Mexico 1990-2006



Roberto Charvel
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Source and contact info:

***“A comprehensive look at the
private equity industry in
Mexico 1990-2006”***

The Journal of Private Equity

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*"We study, we plan, we research. And yet, somehow, money
still remains more of an art than a science."*

Private Equity in Mexico and Latin America

POWER POINT KNOWLEDGE:

- **PE in Latin America represents only 1% of the market.**
- **Of the 1% Mexico represents 10%**
- **Mexico represents 0.1% of the PE market**

Private Equity in Mexico and Latin America

DATA FOR THE PAPER:

- LAVCA
- VELA
- Thomson Financial
- NAFIN
- Pablo Rion y Asociados newsletter
- News runs
- Interviews with fund managers

Private Equity in Mexico and Latin America

DATA DESCRIPTION:

Number of funds: 96

Investment managers: 86

Number of transactions: 326

Total investments: US\$4,485MM

Total debt: US\$642MM

Private Equity in Mexico and Latin America

Private equity flows to Latin America from (1990–2006)

US\$MM

Panel A: Private equity flows in Latin America – VELA only.

Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	NA	TOTAL	
1 Brazil	-	-	41	4	5	659	610	1,333	1,817	730	553	377	140	374	133	477	825	18	8,095.6	30.9%
2 Argentina	10	-	-	30	39	71	560	853	1,465	1,918	765	106	16	111	215	381	290	125	6,953.6	26.5%
3 Mexico	-	-	18	103	-	22	89	316	442	238	253	113	151	149	119	220	387	-	2,815.9	10.0%
4 Chile	-	-	-	5	-	37	46	116	138	44	5	147	2	73	10	76	512	1	1,211.9	4.6%
5 Colombia	-	-	-	-	10	-	-	123	166	119	-	-	60	2	18	-	28	20	547.6	2.1%
6 Regional	-	-	-	-	42	-	4	473	602	890	1,057	222	147	17	26	16	1,410	-	4,710.8	18.0%
7 Other	-	7	41	7	38	752	709	1,570	2,416	938	638	391	330	395	239	510	1,172	18	10,166.2	38.8%
TOTAL	10	7	57	145	129	881	1,408	3,480	5,228	3,946	2,716	979	708	747	634	1,203	3,799	162	26,205.9	100.0%

Source: VELA.

Panel B: Private equity flows in Latin America – VELA figures for Latin America except for data on Mexico.

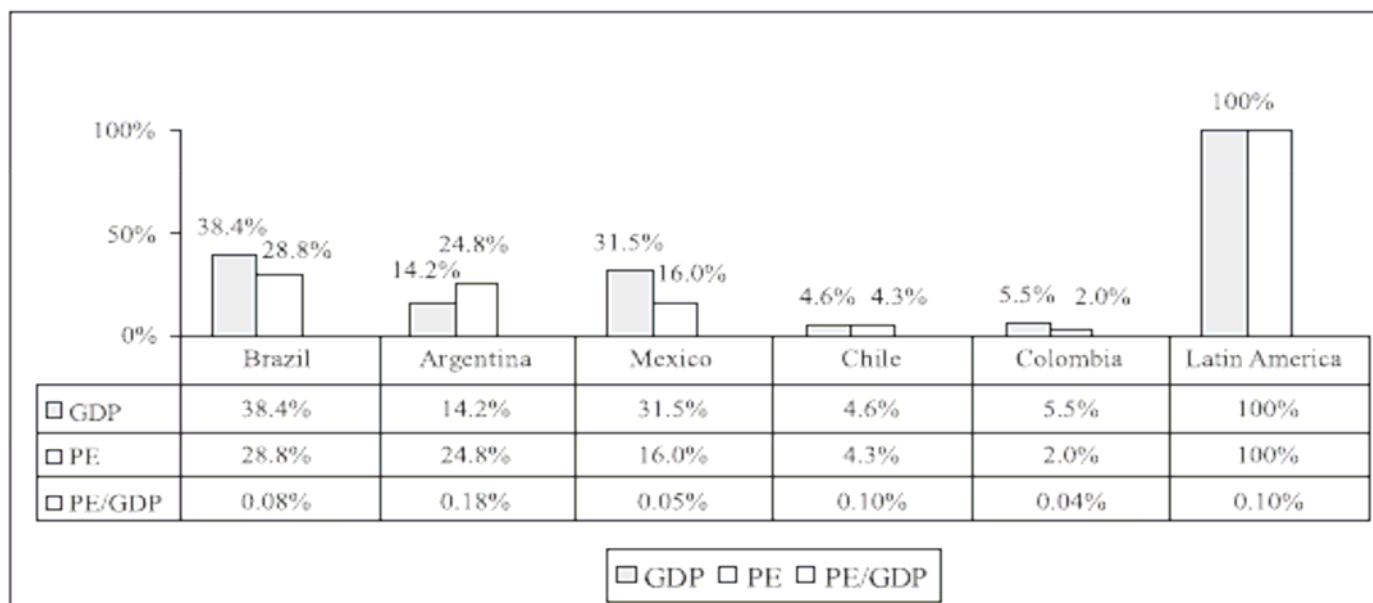
Country	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	NA	TOTAL	
1 Brazil	-	-	41	4	5	659	610	1,333	1,817	730	553	377	140	374	133	477	825	16	8,095.6	28.8%
2 Argentina	10	-	-	30	39	71	560	853	1,465	1,918	765	106	16	111	215	381	290	125	6,953.6	24.8%
3 Mexico	1	1	20	107	2	80	242	437	559	380	757	137	320	393	138	404	507	-	4,485.4	16.0%
4 Chile	-	-	-	5	-	37	46	116	138	44	5	147	2	73	10	76	512	1	1,211.9	4.3%
5 Colombia	-	-	-	-	10	-	-	123	166	119	-	-	60	2	18	-	28	20	547.6	2.0%
6 Regional	-	-	-	-	42	-	4	473	602	890	1,057	222	147	17	26	16	1,410	-	4,710.8	16.8%
7 Other	-	7	41	7	38	752	709	1,570	2,416	938	638	391	330	395	239	510	1,172	18	10,166.2	36.2%
TOTAL	11	8	60	149	132	940	1,561	3,580	5,345	4,090	3,221	1,004	875	930	644	1,386	3,919	162	26,075.4	100.0%

Source: "A comprehensive look at the private equity industry in Mexico 1990-2006", Charvel, R., The Journal of Private Equity, Fall 2007

Private Equity in Mexico and Latin America

Private equity investments relative to GDP in Latin America

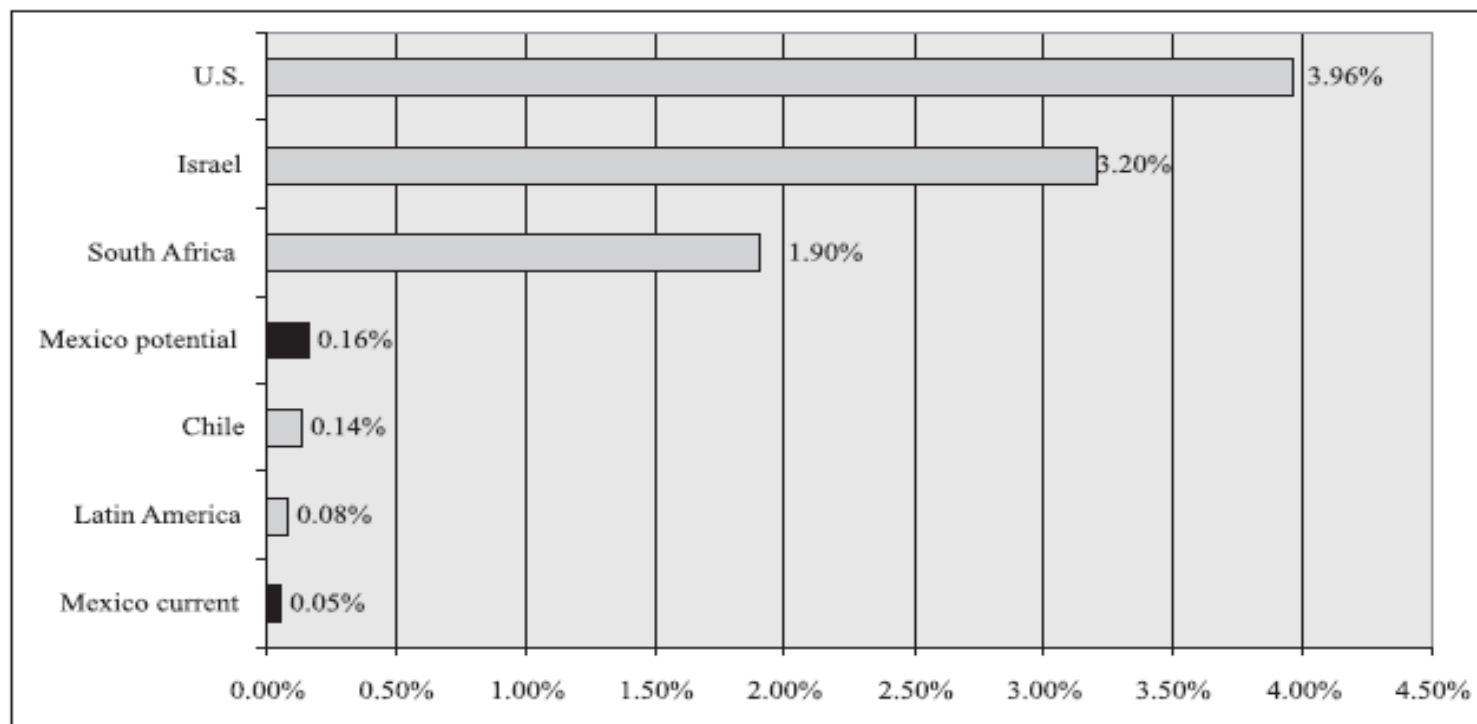
Panel A: 1990–2006.



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Private Equity in Mexico and Latin America

PE/GDP Ratio Comparison



Source: "A comprehensive look at the private equity industry in Mexico 1990-2006", Charvel, R., The Journal of Private Equity, Fall 2007

Private Equity in Mexico and Latin America

Strategies of Investment Management Firms in Mexico (US\$ MM)

	Equity invested US\$ MM	Number of transactions	Number of funds	Equity invested	Number of transactions	Number of funds	Average transaction US\$ MM	Transactions per fund	Equity per fund US\$ MM
Fund type:									
Private equity	\$3,680.5	194	60	82.0%	59.5%	62.5%	\$19.0	3.2	\$61.3
Real estate opportunity funds	590.3	18	10	13.2%	5.5%	10.4%	32.8	1.8	59.0
Venture capital	92.6	73	17	2.1%	22.4%	17.7%	1.3	4.3	5.4
Mezzanine	62.0	4	1	1.4%	1.2%	1.0%	15.5	4.0	62.0
Sincas	60.5	37	8	1.3%	11.3%	8.3%	1.6	4.6	7.6
<i>Total</i>	\$4,485.9	326	96	100%	100%	100%	\$13.8	3.4	\$46.7
Stage focus:									
Late stage	\$3,049.7	140	50	68.0%	42.9%	52.1%	\$21.8	2.8	\$61.0
Early & late	1,294.6	117	29	28.9%	35.9%	30.2%	11.1	4.0	44.6
Early stage	141.1	69	17	3.1%	21.2%	17.7%	2.0	4.1	8.3
<i>Total</i>	\$4,485.4	326	96	100%	100%	100%	\$13.8	3.4	\$46.7
Managed from:									
US	\$2,935.4	110	48	65.4%	33.7%	50.0%	\$26.7	2.3	\$61.2
Mexico	1,485.9	209	43	33.1%	64.1%	44.8%	7.1	4.9	34.6
Other	64.1	7	5	1.4%	2.1%	5.2%	9.2	1.4	12.8
<i>Total</i>	\$4,485.4	326	96	100%	100%	100%	\$13.8	3.4	\$46.7
Geographic focus:									
Regional focus	\$2,739.5	135	32	61.1%	41.4%	33.3%	\$20.3	4.2	\$85.6
Global focus	943.6	39	27	21.0%	12.0%	28.1%	24.2	1.4	34.9
Mexico focus	652.9	139	28	14.6%	42.6%	29.2%	4.7	5.0	23.3
Other	149.4	13	9	3.3%	4.0%	9.4%	11.5	1.4	16.6
<i>Total</i>	\$4,485.4	326	96	100%	100%	100%	\$13.8	3.4	\$46.7

Source: "A comprehensive look at the private equity industry in Mexico 1990-2006", Charvel, R., The Journal of Private Equity, Fall 2007

Private Equity in Mexico and Latin America

Strategies of Successful Investment Management in Mexico (US\$ MM)

	Equity invested US\$ MM	Number of transactions	Number of funds	Equity invested	Number of transactions	Number of funds	Average transaction US\$ MM	Transactions per fund	Equity per fund US\$ MM
Fund type:									
Private equity	\$1,113.2	75	13	\$93.9%	82.4%	76.5%	\$14.8	5.8	\$85.6
Real estate opportunity funds	-	-	-	0.0%	0.0%	0.0%	-	-	-
Venture capital	3.0	1		0.3%	1.1%	5.9%	3.0	1.0	30
Mezzanine	62.0	4	1	5.2%	4.4%	5.9%	15.5	4.0	62.0
Sincas	7.4	11	2	0.6%	12.1%	11.8%	0.7	5.5	3.7
<i>Total</i>	\$1,185.6	91	17	100%	28%	100%	\$13.0	5.4	\$69.7
Stage focus:									
Late stage	\$875.1	49	8	\$73.8%	53.8%	47.1%	\$17.9	6.1	\$109.4
Early & late	245.5	37	7	20.7%	40.7%	41.2%	6.6	5.3	35.1
Early stage	65.0	5	2	5.5%	5.5%	11.8%	13.0	2.5	32.5
<i>Total</i>	\$1,185.6	91	17	100%	100%	100%	\$13.0	5.4	\$69.7
Man aged from									
US	\$644.5	23	5	\$54.4%	25.3%	29.4%	\$28.0	4.6	\$128.9
Mexico	541.0	68	12	45.6%	74.7%	70.6%	8.0	5.7	45.1
Other	-	-	-	0.0%	0.0%	0.0%	-	-	-
<i>Total</i>	\$1,185.6	91	17	100%	100%	100%	\$13.0	5.4	\$69.7
Geographic focus :									
Regional focus	\$956.2	59	10	\$80.7%	64.8%	58.8%	\$16.2	5.9	95.6
Global focus	25.0	1	1	2.1%	1.1%	5.9%	25.0	1.0	25.0
Mexico focus	204.4	31	6	17.2%	34.1%	35.3%	6.6	5.2	34.1
Other	-	-	-	0.0%	0.0%	0.0%	-	-	-
<i>Total</i>	\$1,185.6	91	17	100%	100%	100%	\$13.0	5.4	\$69.7

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Private Equity in Mexico and Latin America

STRATEGIES OF SUCCESSFUL INVESTMENT MANAGEMENT FIRMS:

a) Focus on late stage:

1. Risk minimization
2. Easier access to financing (more leverage than other funds)
3. Higher valuation=easier exit

b) Local management teams

c) Smaller equity investments and more investments per fund

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