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Tango & Cash:
Entrepreneurial Finance and Venture Capital in Argentina

LUIS E. PEREIRO

Center for Entrepreneurship & Business Venturing

Universidad Torcuato Di Tella

Miñones 2177, 1428 Buenos Aires, Argentina

Phone.: (541) 783-3112 - Ext.191

Fax: (541) 783-3220

e-mail: lpereiro@utdt.edu

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TANGO AND CASH: ENTREPRENEURIAL FINANCE AND VENTURE CAPITAL IN ARGENTINA

Luis E. Pereiro, Universidad Torcuato Di Tella

ABSTRACT

This paper is the first to empirically map entrepreneurial finance in Argentina, by studying in-depth three different types of actors: entrepreneurs, formal private equity and venture capital (PE/VC) funds, and angel investors. Operational characteristics of these actors are profiled and, whenever possible, systematically compared to U.S., European and Canadian data. Empirical evidence shows that: (a) it takes on average more money for the Argentine entrepreneur to start a *de novo* venture than for his/her counterparts in the US; (b) operational parameters of formal PE/VC funds are in line with international standards; and (c) Argentine angels invest on average substantially higher amounts per venture than their counterparts in other countries, being also younger than the international average.

INTRODUCTION: COUNTRY AND ECONOMY BACKGROUND

In the last decade, South American emerging countries like Argentina and Brazil have experienced dramatic liberalization processes, which have bred a wealth of exciting entrepreneurial opportunities. Hard empirical data on such ventures is, however, sparse at best, and fully absent concerning the funding mechanisms of both start-up and established ventures. This paper is a first attempt to empirically map entrepreneurial financing mechanisms in Argentina, the second largest economy in the region, from three different vantage points: the entrepreneur, the formal venture capitalist and the angel investor. Profiles of these actors are depicted and, whenever possible, systematically compared to U.S., European and Canadian data.

Located in the southeastern extreme of South America, Argentina is the eighth largest world country, and the second largest in South America, after Brazil. Its population of 36 millions of inhabitants holds the largest per capita GNP in the region ($ 8,950 in 1998).

The country has traditionally been a puzzle to international economists. Endowed with abundant natural resources, of which agriculture was the growth driver at the beginning of the 20th. century, it failed to perform up to expectations. Working as a closed, protected system producing low value added commodities subject to volatile international prices, productivity stagnated for many years, and high inflation became a chronic disease. In fact, the economy almost collapsed under a hyper-inflationary peak of 4,923.6 % in 1989. A subsequent rebound in 1990 (1,343.9 %) pushed the government to trigger two change levers. The first was the launching of a bold stabilization plan in April, 1991 which pegged the Argentine peso to the U.S. dollar. The move resulted extremely successful: in four years, inflation was forced down to figures even below to those found in developed economies.

The second change driver was a specific strategy to attract foreign capital to finance expansion. To this end, a new foreign direct investment (FDI) legal framework was enforced in 1992/93, which completely eliminated restrictions to foreign capital and technology: no prior government approval was needed, foreign newcomers will be on an equal footing with domestic firms concerning taxation and capital repatriation requirements, and sectors previously deemed as “strategic,” like energy, telecommunications and mining, were fully opened to foreign investors.

As a result, FDI started pouring into the country (see Figure 1). Non-privatization-related FDI grew at an annual compounded rate of 136% in the 1991-1997 period, reaching a sizable cumulative amount of $ 33.8 billion. As a result, Argentina became one of the ten so-called big emerging markets of the world (Garten, 1997). As such, it became fertile ground for the emergence of entrepreneurs and venture capital investors, as is discussed next.

METHODOLOGY

This paper reports the results of three surveys. First, 300 entrepreneurs were face-to-face interviewed in 1997/98 using an *ad-hoc* instrument, to explore the financing mechanisms used for both the start-up and growth phases; only 170 questionnaires resulted usable. Second, 39 formal private equity and venture capital (PE/VC) funds were detected; we were able to undertake an in-depth secondary survey on 23 of them; of the latter, only 7 funds (30%) agreed to be in-depth interviewed in August, 1999. About the same time, 27 angel investors were contacted, and 25 of them agreed to be in-depth interviewed through a 50-questions instrument. Entrepreneurs, formal funds and angels were all located through snowball sampling (Malhotra, 1996)—i.e., each respondent was asked to refer the interviewer to at least 3 other colleagues. The small number of angels interviewed was due to the classic problem of finding them; as in other economies, they value anonymity and no databases with their names or investments records are available (Freear, Sohl & Wetzel, 1997). Hence our empirical evidence on angels is merely suggestive and should be used with caution.

ENTREPRENEURIAL FINANCING IN ARGENTINA

Table 1 profiles the Argentine entrepreneurs and their ventures. With regard to financing the start-up phase, Table 2 shows that a full 63% of the sample set up shop with less than $ 100,000, confirming the popular notion that most ventures need relatively small amounts of cash to be launched (see e.g., Bhide, 1992). It also shows that savings remains the most popular source of funding for new ventures; in fact, it is the sole source for 36.7% of the sample, while all other categories do not represent more than 3% each. Table 3 shows that the surveyed ventures tend to use a relatively limited mix of financing sources (median=2); in fact, 46.8% of the sample use only one source. Bank debt is uncommon; only 20% of nascent ventures use it. This is not surprising, considering the dramatically high cost of debt for small businesses in the country, as shown in Table 4 (median=14%). Table 3 shows that the median start-up investment for the sample is $ 70,000—7 times the amount reported by Bhide (1992) for US ventures; the root of this difference remains to be explored.

As for financing the growth stage, retained earnings seem to be the main fuel for expansion; 44% of the sample uses it exclusively; on the other hand debt, which should supposedly provide for leveraging expansion, still plays a minor role, being used by only 20% of the sample; in fact, *debt decreases with time* (from 20% to 5%, median), going counter the findings in other developed economies like Canada, where the D/A ratio increases as the firm grows (Amit, Brander & Zott, 1998). This behavior is surely due to the difficulties confronted by *de novo* ventures in securing loans in Argentina and also on the formidable cost of debt that has to be paid (Cuervo-Cazurra & Lessard, 1997). It should also be noted that even in the growth stage, firms operate with only one bank on average (see Table 4)—although not necessary securing loans from it—in fact, a full 32% of the sample simply does not deal with any bank.

FORMAL PRIVATE EQUITY AND VENTURE CAPITAL IN ARGENTINA

If we define venture capital strictly as financing for the seed and start-up stages, up to 1998 this type of mechanism was almost absent in the economy. However, if we expand the concept to encompass the private equity (PE) industry, very interesting facts appear: PE spectacularly expanded in the last decade. In 1989, there was only one local PE fund operating in the country. Since the surge in acquisitions and turnaround operations from 1993 on, both regional and local funds quickly entered the private equity arena. Our research uncovered that as of August, 1999 there were at least 39 formal investors in operation (PE and/or VC-related). We were able to collect detailed secondary information on 23 funds; only 7 funds (30%) agreed to be in-depth interviewed (each category of respondent is marked with an asterisk in Table 5). Results of the field research undertaken are presented next. A caveat: findings correspond to a period where Internet-related businesses were not yet popular; data may change fast in the future, since digital businesses came of age in Argentina in late 1999; this phenomenon is accounted for briefly in the following paragraphs.

Table 5 shows that the volume of assets managed in the Argentine PE/VC industry is sizable. The 39 funds surveyed report to manage a combined assets pool of $ 12.4 billion, having funded 160 transactions to date. Some 46.2% of these funds have Argentina as their main operational focus; regionally-oriented funds, including some well-known international names in the venture capital industry, account for 53.8% of the sample. Even considering that regional funds are targeting to the whole of South America, and that most of the capital goes to 2nd.round financing and recapitalizations, as we will show below, funds strictly focused on Argentina are managing more than $ 5 billion. The dramatic growth of the industry mirrors the accelerated expansion of the venture capital industry in the US in the mid-90's (see Timmons & Bygrave, 1997) and can be attributed to the opening of the economy in 1991-1992. As could be expected, all fund managers interviewed in August 1999 agreed that there was too much money chasing too few good projects, and hence a shake-out of the industry was in order. However, the eruption of activity due to the digital revolution disturbed the industry, including the formation of new asset pools strictly targeted to digital ventures; it is too soon, however, to gauge the true impact of the e-fever on the industry.

Main operational features of the 23 formal PE/VC funds are portrayed in Table 6. First, funds differ in their preferences for degree of control; a third of the sample may enter both minority and control deals; another third, only majority positions; the last third, only minority shareholdings. Second, most funds provide management advice, i.e., are active funds; some 60% provide strategic advice only to their investees (e.g., strategic planning, securing bank financing, selecting management cadres, and introducing the company to new clients and suppliers). A full 34.8% of the involved funds provide also operational advice on the day-to-day management of the firm. Only 4.3% of the sample are passive investors.

A sizable portion (43.4%) of the funds surveyed provide capital within the $ 5-10 million range at a minimum; however, 13% set a floor of less than $2 million; our survey of entrepreneurs suggests that formal investments can be as low as $ 300,000. Expected returns seem to be in line with the values sought in more developed economies (25%-35%); we hasten to say that most of the transactions reported as of the date of the survey were involved mainly in second round financing, mezzanine and recapitalizations for well-established companies, which typically hold values in such lower end. Average investment period seems to be in line with traditional (i.e., non-Internet related) ventures in the U.S. and Canada—i.e., 3 to 7 years.

Concerning the expected exit strategy, more than 60% of the funds expect to exit via IPOs; this is however inconsistent with reality; all interviewed fund managers revealed that local IPOs are infrequent, due to the high costs and red tape involved in going public. Moreover, even companies which had traditionally quoted in the Buenos Aires Stock Exchange are quitting—

from 186 companies quoting in 1988, only 128 remain; a 31% decrease in 10 years; and new stock is increasingly being offered straight in the international capital markets—e.g., in the NYSE or the NASDAQ. Within the framework of a weakened local capital market, acquisition by strategic (i.e., involved or business-related) buyers is thus the most probable and sought exit strategy by formal PE/VC funds today. One fund manager stated that in practice, he expects such mechanism may to encompass 70%-80% of all exits, IPOs 10%-20% only, and the write-offs, 5%-10%. Interviewing also yields that the reported hit rate (i.e., investments undertaken vs. analyzed proposals per year) is in line with the current values in the U.S. industry—between 1% and 2%, a bit lower than the European figures (3-4%).

As for sectorial preferences, Table 7 shows that food and distribution & logistics accounted for a sizable portion (65.2%) of responses. Service sectors were also popular. In general, the selection of target industries was in line with the process of revamping mature industries and improving distribution channels for consumer goods, and with the turnaround of industries like telecommunications and banking; as a matter of illustration, only five sectors concentrated 60% of FDI from 1990 to 1997: telecommunications (17%), oil and gas (15%), autos (13%), financial & insurance (12%) and food (11%); see Pereiro, 1998). These sectors encompassed 69.4% of frequency of mentions in our survey. However, many funds are now setting up sub-funds specially oriented to Internet-related ventures, which are growing fast in the country, as will be discussed next.

From 1993 to mid-1998, the stage of investment of the formal funds surveyed closely followed developments in the economy at large. Since the surge in FDI activity quickly forced most companies to fully restructure in order to gain competitiveness, funds behaved in line with such microeconomic restructuring, i.e., they concentrated efforts on second round financing in mature companies, whose operations were improved and eventually sold to foreign entrants in the economy. As a result, seed, start-up and first-round financing capital was generally not available at that time from formal investors (we could detect only one formal fund seeding a venture in 1997; see Pereiro, forthcoming). However, the emergence of digital businesses in 1998 prompted some funds to move to first round financing (though only in ventures which had been previously received start-up money from an angel investor) to start-up financing to seed financing. The last move was in part accelerated by Chase Manhattan, who in July, 1998 invested $ 4 millions at a $12 millions pre-money valuation for a 30% stake in Patagon.com, a vertical financial services portal which quickly expanded into the region (Montealegre, Pereiro & Sahlman, 1999). In March, 2000, Patagon.com was sold to Banco Santander from Spain at $ 855 millions. This remarkable return produced a shift in focus in many funds, which started seeding and providing start up capital directly to Internet-related ventures, very much in the "gold rush" fashion taking place in the U.S. and Europe. In early 2000, for instance, HMTF decided to deploy $ 50 millions exclusively in Internet-related ventures in the region.

INFORMAL VENTURE CAPITAL IN ARGENTINA: PROFILING ANGEL INVESTORS

Our research comprised 25 active angel investors—self-made high net worth individual investors (Freear, Sohl & Wetzel, 1997)—who had funded 79 projects in the last 5 years; only 10 projects had been exited as of the time of the survey. A 92% of the sample consisted of male respondents. Surprisingly, a large portion (36%) of our sample is relatively young (up to 35 years old); another 52% is more in line with the typical age needed to amass enough wealth to invest privately—i.e., 45 years old or more (Table 8). They also seem to be well-educated: 60% hold a university degree, and 20% have also a graduate degree. As for the motivations to invest, 60% report being exclusively prompted by economic reasons; in our sample, the money driver had an average importance of 84.3 points, in contrast with fun (8.4 points) and altruistic reasons (7.2 points).

Argentine angels typically review 10 proposals a year, funding on average 1 out of 10; as it is traditional (e.g., Wetzel & Freear, 1996), most fund ventures which are geographically close to home; 80% of our sample invested in the Buenos Aires area, where they lived; however, 32% had also invested in the Mercosur region (Brazil, Argentina, Uruguay, Paraguay) and beyond. A full 88% of our sample co-invests with other partners; 68% reports that the average number of co-investors per venture is 4 or less members. As for industry preferences, Table 8 shows that the growth potential of the target sector and previous hand-on experience in it are the main selection criteria. As to self-reliance within the investment process, we used Sullivan's (1996) typology to classify angels' behavior. We found that independent investing—welcoming leads form others but mostly trusting on oneself to invest—was the most frequently mentioned role (64%); lead investing (searching, deciding and suggesting), group investing (investing along a group of angels) and referred investing (investing mainly by recommendation of others) were much less mentioned (20%, 24% and 12% respectively). Most members (64%) on our sample could be classified as serial investors—i.e., having done at least 3 investments (Kelly & Hay, cited in Freear, Sohl & Wetzel, 1997, p.52). Although our angels invest, as expected, in seed and start-up stages (17%) second round financing (18.6%) and the financial restructuring of mature ventures (37.3) are also very important. It can also be seen in Table 8 that most angels help entrepreneurs with fundraising and strategic planning; their operational involvement is, as it could be expected, higher than that of the formal PE/VC funds (52.0% vs.33.3%). This strong involvement in day-to-day operations could account for their perception that the idea is much more crucial for success than the entrepreneur or the management team, as seen in Table 8; it also confirms Ehrlich et al. suggestion that angels are less likely than VC funds to alter the makeup of the managerial team (cited in Freear, Sohl & Wetzel, 1997, p.55).

Investments size and performance for angel investors are depicted in Table 9. Most angels hold minority shareholdings (median=33%), expect a median annual return of 25%, and obtain a median return of 20%. Angels' money does not seem to be that 'patient'—the median expected average life per project is only 2 years. As for the 10 exits reported, 50% resulted in selling to third parties; 30% ended in closure and liquidation of the business. However, these values are too small to allow for generalization.

Our study also sought to learn why Argentine angels reject proposals. Most frequently mentioned reasons were: lack of adequate information (88%), inadequate return (80%), inadequate entrepreneur or management team (76%), too much risk (72%) and lack of funds (68%). Sullivan's (1996) study on US angels reported, similarly, that lack of information was the prime cause for rejecting a proposal (45%); however, unavailability of funds was not as important in her sample (16%) as it was in ours. This adds to the empirical evidence we have assembled from entrepreneurs, formal funds and angel investors, seeming to point to the fact that the average investment per venture in Argentina is larger than in other countries.

In Table 10 we have reframed our data to allow for an international comparison. Argentine angel investors fit in broad terms with the profiles of colleagues from the U.K., Sweden, Finland, the U.S. and Canada. Two main differences, however, strike the eye. First is age; as said, there is a sizable (35%) proportion of young angels in Argentina—up to 35 years old. We further explored the characteristics of this sub-sample: young angels are well-educated (44% hold a university diploma, and 56% a graduate diploma); experienced (67% have 9 or more years of experience); seasoned as entrepreneurs (78% have been in the entrepreneurial track before); motivated solely by financial reasons (100%); act as lead or independent investors (67%); and choose target sectors mainly by their growth potential (78%).

The second remarkable difference for our full sample is that the median investment per venture ($400,000) is substantially higher than in other countries—more than twice the averages of Canada and Finland, and more than six times the U.S. average. As another comparison, only 9% of US angels in Sullivan's survey (1996, p.94) invested over $ 250,000, while the figure goes up to 49% in our case. Our younger angels, in particular, do not seem to invest less on average than their older colleagues (minimum= $ 200,000 vs.$ 20,000; median: $ 1 million vs.$ 400,000). All in all, we believe that the results reported are not without merit but should however be regarded as tentative, given the small numbers involved in the survey.

From 1995 to 1999 formal PE/VC funds had extraordinarily increased their exposure to the general public in general and to entrepreneurs in particular through the judicious use of media, industry publications and open conferences; it is very easy now for an Argentine entrepreneur to locate and contact a venture capitalist. In contrast, contacting angels is still, as in many countries, problematic, due to the absence of a more formal information network. This market inefficiency is being addressed by different business introduction services (Harrison & Mason, 1996), ranging from contact meetings organized by for-profit matchmaking entrepreneurs to Internet-based contact and screening services operated by both for-profit and not-for profit organizations; as an example, Universidad Torcuato Di Tella in Buenos Aires operates a free, web-based service where formal venture capitalists, angel investors and promising entrepreneurs may interact with each other. We expect Internet-based interaction to increase in the country, substantially improving the matching rate between angels and entrepreneurs.

ENTREPRENEURIAL CAPITAL THRESHOLDS

The search for funding usually consumes a good *tranche* of the entrepreneurs´ time. Many authors state that the effort devoted to secure financing by courting venture capitalists may not always be wisely spent, since it can be detrimental to the relentless devotion needed to develop and improve the operational core of the venture (Bhide, 1992; Wetzel, 1997). It is then crucial that the entrepreneur approaches the right investor from the start. The amount of money sought, the stage of development of the business, and the matching of the VC expected return with the venture potential are key considerations. The classic rule is to start with savings, and then proceed to angel investors to formal VCs, as capital needs expand. Bank loans are normally impossible at the start—as we have shown for Argentina, not only they are difficult to secure, like in any other country, but also the cost of debt makes it an unattractive alternative—the weighted average cost of capital may go up, not down, with bank debt. If savings are not enough to capitalize the venture, angel investors are in order, since most new ventures do not hold enough potential to attract a formal VC fund. As for the size of investment, we have depicted in Table 11 feasibility "windows" or investment thresholds for the amounts that can be sought from different types of financing sources in Argentina; we believe this empirical data to be useful for practicing entrepreneurs in approaching potential partners.

CONCLUSIONS

This is the first paper to provide empirical data unavailable elsewhere on the financial needs of entrepreneurs and on the specific features of the PE/VC and angel investors industries in Argentina, a thriving South American emerging economy. Our research suggests that: (a) the average investment size per start up seems to be larger than in the US; (b) PE/VC funds were quick to enter the economy upon liberalization; (c) there seems to be oversupply in the Argentine PE/VC industry and a shake-out is probable, although the appearance of Internet-related investments and the concomitant upsurge in VC activity makes it difficult to predict the shortterm fate of the industry; and (d) angel investors seem to be younger and provide much larger amounts of venture capital on average than colleagues from other countries. Although much remains to be researched, these reflections provide at least a glimpse on main trends in new venture financing in South America.

Contact: Luis E. Pereiro, Center for Entrepreneurship & Business Venturing, Universidad Torcuato Di Tella, Miñones 2177, 1428 Buenos Aires, Argentina; (T) 54-11-4783-3112; (F) 54-11-4783-3220; lpereiro@utdt.edu

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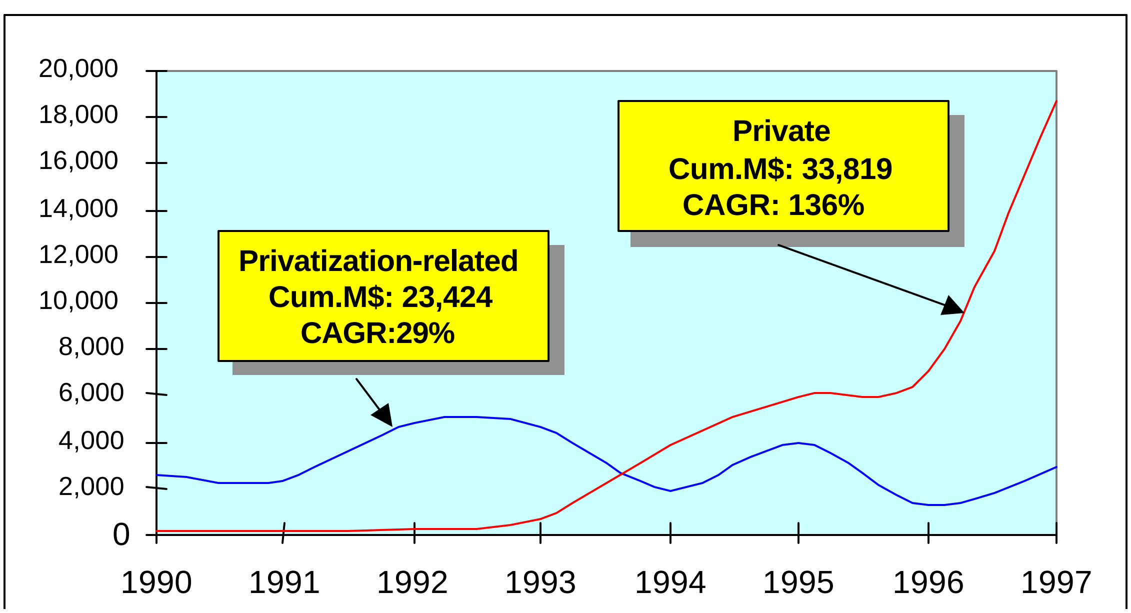
Figure 1



Foreign Direct Investment Waves in Argentina ($ million), 1991-1997

Source: Pereiro (1998). All privatizations took the form of joint-ventures between a national private company and one or more foreign partners; the state also usually retained a small portion of the shares of joint-ventures. Reported privatizations-related figures are then a mixture of foreign and domestic investment, and include both acquisitions and post-transaction investments.

Table 1

Entrepreneurs & Ventures in Argentina: Demographics (n=170)

1. Gender	
Female	22,2%
Male	77,8%
2. Background of entrepreneur	%
Graduate diploma	4,7%
University diploma	42,4%
Tertiary school	14,1%
High school	35,3%
Primary school	2,4%
N/A	1,2%
3. Age of entrepreneur at launching time (years)	%
Up to 20	8,8%
21-25	18,8%
26-30	20,0%
31-35	11,2%
36-40	15,9%
41-45	12%
46-50	9,4%
51-55	3,5%
N/A	0,6%
4. Sector of venture	%
Commerce	28,8%
Manufacturing	15,3%
Services	55,3%
N/A	0,6%
5. Venture yearly sales ($)	%
0-49,999	12,9%
50,000 – 99,9999	8,2%
100,000 – 199,999	16,5%
200,000 – 299,999	6,5%
300,000 – 399,999	5,3%
400,000 – 499,999	4,1%
500, 000 – 999,999	5,9%
1 million – 4,999,999	18,8%
5 million – 9,999,999	4,1%
10 million or more	6,5%
N/A	11,2%
6. Venture headcount	%
0-5	40,0%
6-10	20,0%
11-15	10,0%
16-20	7,6%

21-30	1,8%
31-40	2,4%
41-50	2,9%
51-100	8,8%
101-500	3,5%
501-1000	0,6%
> 1000	1,2%
N/A	1,2%
7. Age of venture (years)	%
< 0.5	7,6%
0.5 – 0.9	2,9%
1-1.9	14,7%
2-4.9	32,4%
5-9.9	17,1%
10-14.9	5,3%
15-19.9	7,6%
20-30	8,2%
> 30	3,5%
N/A	0,6%

Table 2
Entrepreneurial Finance in Argentina: Initial Investment and Sources of Capital (n=170)

1. Initial investment ($)	% cases
Less than $ 10,000	20%
10,000-$ 99,999	43%
100,000- $ 499,999	24%
500,000-$ 999,999	7%
1,000,000 and more	7%
2. Sources of funds	% mentions
Savings	88%
Family	27%
Bank loans	20%
Suppliers	14%
Inheritance	13%
Friends	9%
Angel investors	5%
Formal venture capital	3%

Table 3
Entrepreneurial Finance in Argentina: Start-up Financing Mechanisms (n=170)

	Initial investment ($)	Initial D/E Ratio	Initial D/A ratio	# sources used
Minimum	200	0.25	0.00	1.00
Maximum	12 million	9.00	0.90	5.00
Average	388,000	1.44	0.51	1.79
Median	70,000	1.00	0.50	2.00

Table 4
Entrepreneurial Finance in Argentina: Growth Financing Mechanisms (n=170)

	Profits	Equity	Suppliers credit	Local banks loans	International banks loans	# banks	Cost of debt

Minimum	5%	1%	1%	2%	5%	0.00	5%
Maximum	100%	100%	80%	90%	70%	10.00	42%
Average	75%	39%	34%	25%	27%	1.00	15%
Median	86%	30%	30%	20%	25%	1.00	14%
% mentions	96%	25%	23%	30%	10%	94%	-

Table 5
Formal Private Equity and Venture Capital Funds Operating in Argentina (as of August, 1999)

#	Fund	Size in $ million	Focus	# Deals
1	The Exxel Group *	2,000	Argentina	23
2	Hicks, Muse, Tate & Furst (HMTF) *	2,000	Regional	2
3	Citicorp Equity Investment	1,500	Argentina	16
4	Bank of America's Latin America Private Equity I *	650	Regional	1
5	Perez Compac Family Group	600	Regional	4
6	Advent International Global Private Equity	500	Regional	1
7	Chase Capital Partners Latin America *	500	Regional	7
8	Merill Lynch	450	Regional	1
9	Newbridge Latin America *	435	Regional	6
10	DLJ Merchant Banking Partners *	400	Regional	6
11	Consultores Asset Management Private Equity*	350	Argentina	6
12	The Argentine Investment Company (TAICO)	230	Argentina	8
13	TCW/Latin America Private Equity Partners *	226	Regional	2
14	The Southern Cross Latin America Private Equity Fund *	210	Regional	2
15	WestSphere *	200	Regional	6
16	BancBoston Capital *	200	Regional	0
17	Bankers Trust *	200	Regional	4
18	UBS Capital Latin America LDC *	200	Regional	0
19	Argentine Venture Partners **	150	Argentina	4
20	Dallpoint Investment	150	Argentina	1
21	Darby Overseas Investments *	150	Regional	2
22	Goldman Sachs Emerging Markets Real Estate Fund	150	Regional	1
23	BISA-Bemberg Group **	130	Argentina	12
24	Medical Management of America (Trident)	100	Argentina	1
25	AIG-GE Capital (Latin America Infrastracture Fund) **	77	Regional	2
26	Compass Capital Argentina	75	Argentina	0
27	The Tower Fund **	72	Argentina	7
28	Banco Francés/AIG/Banco Itaú/Banco Crédito	70	Argentina	1
29	Galway Partners	70	Regional	0
30	Global Investment **	65	Argentina	2
31	MBA Private Equity **	60	Argentina	1
32	Galicia Advent Socma Private Equity Fund **	50	Argentina	3
33	South America Private Equity Fund	50	Argentina	3
34	FMO	50	Regional	1
35	Innova Argentina *	30	Argentina	5
36	Morgan Stanley Global Emerging Markets Private Equity Fund	30	Regional	1
37	Fiducorp *	20	Argentina	7
38	Inversora Forum S.A. *	N/A	Argentina	4
39	MTC Intvestment *	N/A	Regional	7
	TOTAL	12,400		160

Source: Author’s research, The Tower Fund. (*) Detailed secondary research. (**) In-depth interviewed.

Table 6
Formal Private Equity and Venture Capital in Argentina: Operational Characteristics of 23 funds

1. Preferred % ownership	% cases
Majority shareholdings (>51%)	30.4%
Minority shareholdings (<51%)	34.8%
Both	34.8%
2. Strategic & operational involvement	**% cases**
Provides	95.7%
Strategic only	60.9%
Strategic + operational	34.8%
Does not provide	4.3%
3. Minimum Investment ($ million)	**% cases**
0-1	8.7%
1-2	4.3%
5-10	43.4%
10	21.7%
15-20	4.3%
20-25	4.3%
N/A	13.0%
4. Maximum Investment ($ millions)	**% cases**
0-2	4.3%
10-19	4.3%
20-29	4.3%
30-39	8.7%
50-59	4.3%
60-100	4.3%
Depends on project	17.4%
N/A	52.2%
5. Expected return	**% cases**
>20%	8.7%
25%	4.3%
>25%	8.7%
25-30%	21.7%
>30%	17.4%
35%	4.3%
Depends	21.7%
N/A	13.0%
6. Expected exit strategy	**% mentions**
IPO	69.6%
Management buyout	21.7%
Acquisition by strategic partners	60.9%
Recapitalizations	4.3%
Other	43.5%
7. Expected average investment period (years)	**% cases**
5	17.4%
7	4.3%
3-5	13.0%
3-7	13.0%
3-8	4.3%

4-7	17.4%
5-7	8.7%
5-8	8.7%
7-10	4.3%
N/A	8.6%

Source: Authors research, Fundación Invertir (1999)

Table 7
Formal Private Equity and Venture Capital in Argentina: Sectors of Involvement*

Sectors	% mentions
Food	34.8%
Other services	34.8%
Distribution & logistics	30.4%
Retail	17.4%
Agroindustry & commodities	17.3%
Entertainment	13.0%
Telecommunications	13.0%
Consumer goods	13.0%
Financial services	13.0%
Health services	13.0%
Media	8.7%
Oil & gas	8.6%
Clothing	4.3%
Construction	4.3%
Insurance	4.3%
Public services	4.3%
N/A	43.4%

* Some respondents mentioned more than one sector.

Table 8
Angel Investors in Argentina: Operational Characteristics (n=25)

1. Gender	%
Male	92%
Female	8%
2. Age (years)	**%**
< 30	20%
30-35	16%
35-40	4%
40-45	8%
45-50	24%
50-55	28%
3. Education	**%**
High School	20%
University	60%
Graduate education	20%
4. Reasons to invest in target sector	**% mentions**
Growth of sector	88%
Experience in sector	64%
Other	24%

5. Most important factor in a proposal	% mentions
Idea	64%
Business Plan	12%
Entrepreneur	12%
Management team	12%
Product or process	8%
6. Angel category	**% mentions**
Independent investor	64%
Group investor	24%
Lead investor	20%
Referred investor	12%
7. # projects funded in last 5 years	**%**
0-2	36%
3-7	56%
8-11	8%
8. Stage of investment (n= 59 ventures)	**%**
Seed	5.1
Start up	11.9
1st.round financing	27.1
2nd.round financing	18.6
Restructuring	37.3
9. Strategic & operational involvement	**% mentions**
Fundraising	76%
Strategic planning	72%
Operational Planning	52%
Introduction to clients and suppliers	52%
Reputation	28%
Management recruiting	20%

Table 9
Angel Investors in Argentina: Investment, Ownership and Performance of Ventures

	Investment $ (n=48)	% ownership (n=62)	Expected return % (n=51)	Realized return % (n=45)*	Average expected life of project (years) (n=34)	Target hit rate (%)
Minimum	20,000	2	10.0	0	0.5	0.0
Maximum	24,000,000	100	1,000.0	100	20.0	100.0
Average	1,923,125	45.8	50.1	26.1	5.3	19.3
Median	400,000	33	25.0	20	2.0	10.0

* Five projects (11%) out of the 45 cases in the sub-sample had negative returns. Only 10 (22%) had been exited; numbers reflect the best estimates of yearly returns by investors.

Table 10
Angel Investors: An International Comparison of Europe, US, Canada and Argentina*

	United Kingdom	Sweden	Finland	USA	Canada	Argentina
1. Age (years)	53	54	40-60 (67%)	47	47	<35 (36%); >45 (52%)
2. Sex	99% male	-	95% male	95% male	98% male	92% male
3. Previous entrepreneurial experience	57%	96%	-	83%	75%	88%
4. Number of investments	2 every 3 years	1 a year	1 every 3 years	2 every 3 years	1 a year	2 every 3 years
5. Rejection rate	7 out of 8	7 out of 10	9 out of 10	7 out of 9	9 out of 10	9 out of 10
6. Average size of investment	£ 10,000	500,000 SEK	$ 175,000	$ 58,900	$ 207,000 (Cdn)	$ 400,000
7.Primary information sources on investment opportunities	Business associates; friends	-	Business contacts; friends	Friends; business associates	Knew the entrepreneur; friends; business associates	Friends; professio-nal advisors; relatives
8. Main sectors	Retail/ wholesale; consumer services; high-tech manufactu-ring.	Finance/real estate; manufactu-ring industrial products	Manufactu-ring; high-tech manufactu-ring	Retail/whole-sale; finance/real estate; services; high-tech manufactu-ring	Natural resources; manufactu-ring-industrial and commercial; real estate	Construc-tion, retail, real estate, financial services
9. Minority voting control	81%	65%	-	56%	(10% majority ownership)	55 %

* Data in Columns 2, 3, 5 and 6 from Harrison & Mason, 1996, pp.12-13. Data in Column 4 is from Lumme, Mason & Suomi, 1996.

Table 11
Likely Size of Investment in Argentina: Empirical Thresholds per Source ($)

	Savings & inheritance	Family	Friends	Suppliers	Commercial Banks	Angel Investors	PE/VC investors
Minimum	100	2,500	75	75	100	20,000	5,000,000
Maximum	8,000,000	1,250,000	400,000	301,500	800,000	24,000,000	20,000,000
Average	262,599	204,386	48,640	48,808	128,468	1,923,125	-
Median	33,000	82,500	18,000	21,000	52,000	400,000	12,000,000