THIRD EDITION

THE LATIN AMERICAN PRIVATE EQUITY DEAL BOOK & ESG CASES

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INTRODUCTION

If 2016 has taught us anything, it's how easily the thin veneer of predictability and certainty can dissolve under the weight of increasingly turbulent economic, geopolitical, and technological forces. The UK's decision to leave the European Union, the surprise results of the Presidential election in the US, and Colombia's rejection of a FARC peace deal after 52 years of war all speak to a world in which disruption continues to spread. Two years ago, we marveled at the growth of Uber, and the dramatic speed with which traditional business models could be usurped; now, many of these same forces are impacting not just susceptible business models, but the institutions (albeit in different ways) upon which our societies are based.

Private equity occupies a unique space amidst a rapidly evolving world. As agents of transformation, PE firms are an integral and increasingly important part of the mechanism bringing new innovations to market; healthcare technologies that can improve and extend the lives of millions; technological innovations that can connect us in ways we haven't yet considered; advancements in energy that can maximize our natural resources and help us meet our increasing need for power from cleaner sources; and workaday improvements in manufacturing, supply chains, procurement, and distribution, that in aggregate, can yield dramatic increases in efficiency and productivity and enhance our everyday quality of life. Indeed, PE's unique fusion of capital and operational expertise puts it at the forefront of many of the changes that are reshaping our world.

Even more important is the role that PE plays in driving forward social progress – through the routine implementation of good governance practices, protection of workers' rights, and its increasing focus on sustainable business practices and environmental protection. In an environment where many of the traditional pillars we've relied upon for such advancement could be increasingly challenged to deliver upon these mandates, the private sector, and PE in particular, must be at the vanguard of progress.

Fortunately, PE firms are well positioned to respond - especially those in Latin America and many other emerging markets. They have developed businesses predicated on partnering with companies to drive improvements through operational change, and incorporating best practices in governance, human capital, and sustainability along the way; delivering attractive returns for investors side by side with measurable social benefits. In our increasingly volatile and unpredictable world, their stability, expertise, and leading practices will be more critical than ever.

LAVCA and EY are proud to present the following series of case studies that articulate the very best of our industry; which demonstrate clearly the tangible ways that PE firms are working to make our world better, working side by side with Latin America's entrepreneurs and family owners to help companies reach their full, sustainable potential. Our most sincere thanks go to the firms that have shared their experiences in the following pages. Their stories provide inspiration not just for the PE industry, but for a world in transition.

DATE OF INVESTMENT DEC 2014

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 50%

COMPANY NAME

Grupo Cataratas
www.grupocataratas.com

INDUSTRY / SECTOR Consumer/Retail

LOCATIONS

Brazil, including Rio de Janeiro, Foz do Iguaçu, Paraná State, Fernando de Noronha, Pernambuco State

DESCRIPTION

Founded in 1998, Cataratas provides ticketing services, transportation, parking facilities, retail stores, food and beverage and other services at several of Brazil's most important national parks. These include Iguazu National Park in southern Brazil, where Iguazu Falls, one of the world's largest waterfalls, is located and the archipelago of Fernando de Noronha, a national park in northeastern Brazil. Both parks have been designated UNESCO World Heritage sites. The company also holds equity interests in the Paineiras-Corcovado Concession in Rio de Janeiro's Tijuca National Park, featuring the famous "Christ the Redeemer" statue; AquaRio S.A., a company contracted to service the planned aquarium in Rio's revitalized port area; the Rio Zoo, a former municipal zoo in Rio de Janeiro; and Marco das Três Fronteiras, a park located near Iguazu Falls on the border of Brazil, Paraguay, & Argentina.

INVESTOR PROFILE

Advent International is a global private equity investor. The firm began operating in Latin America in 1996 and has since invested in over 50 companies located in eight countries and territories across the region. Advent's latest fund, LAPEF VI, has US$2.1b in committed capital and is being invested across Latin America by a team of 38 investment professionals based in Mexico, Brazil, Colombia, and Peru. The firm pursues control-oriented investments in later-stage businesses in its core sectors, including business and financial services; healthcare; industrial and infrastructure; retail, consumer, and leisure; and technology, media, and telecom.

FUND NAME

Latin American Private Equity Fund V (LAPEF V)

FUND SIZE US$1.65 billion

TOTAL AUM US$40 billion

OPPORTUNITY

Advent International already had extensive investment experience in the tourism-related sector, including its investment in Spanish leisure park operator Parques Reunidos. In Latin America, the firm had invested in travel retail companies such as Dufry, Brasif, and Aeroboutiques, and restaurant operators such as International Meal Company and Aerocomidas. Advent was already seeking investments in this sector when it identified Cataratas as a positive play on Brazil tourism expansion. The company had the appeal of being a concession business operating with solid long-term contracts and high barriers to entry. Despite being a highly profitable niche, it was below the radar of most typical concession operators.

As a result, Cataratas is the only sizeable operator in Brazil of its type, which created opportunities for M&A and greenfield projects. The business already has high organic growth with 13% compound annual growth in visitors to national parks over the past five years. The concession operates Brazil's leading tourist destinations, with a good mix of visitors from both Brazil and abroad, as well as students. Furthermore, national park visitation is low in Brazil, compared to the US or Argentina. As the quality of the management and experience improves, more people will continue to visit these parks. Advent already had an existing positive relationship with Cataratas' other shareholders, roughly 70% of which are the same as those of Advent portfolio company TCP, Brazil's second-largest container terminal. The partnership between Advent and these shareholders was crucial to the quick completion of the investment in Cataratas.

EXECUTION

Cataratas began operating nearly 20 years ago when it obtained the exclusive concession to operate visitation services for the Iguazu National Park, including its box office, retail stores, restaurants, internal transportation, and parking facilities. In recent years, the

company obtained three other important concessions: visitation services at Tijuca National Park in Rio de Janeiro, featuring the famous "Christ the Redeemer" statue; Fernando de Noronha, an island located off the northeast coast of Brazil; and AquaRio, the largest aquarium in South America, located in Rio de Janeiro's recently renovated port area.

While these concessions had already been granted to the company at the time of Advent's investment, the construction of the aquarium was still in its early days, and the expansion of the visitor center at Christ the Redeemer was still in the planning phase. During 2015 and 2016, management completed the construction of the Aquarium, which opened in November 2016, and built the new facilities at Christ the Redeemer, including a new visitor center, stores and restaurants, which opened in July 2016 ahead of the Rio Olympics. Both projects are expected to bring substantial EBITDA growth to the company.

Since Advent's investment, Grupo Cataratas has won two new concessions: the Rio Zoo, a former municipal zoo in Rio de Janeiro with more than 1 million visitors per year; and Marco das 3 Fronteiras, a park located near Iguazu Falls on the border of Brazil, Paraguay, and Argentina. The company will revamp the Rio Zoo facilities and expects to reopen the zoo in 2018. Marco das 3 Fronteiras was launched in January 2016 in soft opening mode, with full launch scheduled for 2017.

Advent's initial focus was on improving the operational management of Grupo Cataratas by implementing several measures to realize synergies across the parks operated by the company. These included creating a holding company to manage all the parks and hiring a new management team including a CEO, CFO, sales director, controller, and institutional director. With the new management team, many key organizational functions have been centralized at the holding company level, helping to improve controls and quality and allowing purchasing synergies across the parks. To run the day-to-day operations, Advent helped create a business unit head for each park. Advent also worked with the company to strengthen its corporate governance by creating board committees (e.g., Finance Committee, Human Resource Committee) and implementing a stock option program for key managers. Additionally, the company has been executing a zero-based budget, a method of budgeting in which all expenses must be justified for each new period. Finally, Advent has been instrumental in forming a program management office, which oversees and drives all transformational and enabling initiatives, including commercial and ESG efforts, among others.

OUTCOME

Before Advent's investment, Grupo Cataratas was managed in a fragmented way. Each park operated by the company had its own management team, back office and systems, with limited integration and synergies. Advent's main challenge was to integrate the parks into a single operation and capture synergies from this process. The key steps taken were to create a holding company and hire a new single management team—including a CEO, CFO, commercial director, and institutional director—to oversee the operation of all the parks and centralize functions such as purchasing, regulatory affairs, IT, accounting, and commercial activities. This centralized holding company allowed the group to capture significant gains and aggressively pursue the purchase of new concessions. Going forward, Cataratas appears well-positioned to continue expanding by growing organically, ramping up the recently opened parks and increasing the number of parks it operates.

ESG IN FOCUS

Grupo Cataratas' main business purpose is to promote environmentally conscious visitation to Brazil's national parks as a way to support long-term preservation. Grupo Cataratas strongly believes that the best way to preserve the country's most important parks is by opening these destinations to public visitation and providing education to visitors, employees, and suppliers. The group also strongly believes in the development of the local communities living near the parks and has a strong program to purchase certain goods – ranging from souvenirs to snacks – from these communities.

Additionally, Grupo Cataratas has a program to reduce waste from the purchase of plastic bottles at the Fernando de Noronha Park, located on an island almost one hour by plane from the nearest city. Waste disposal has always been the biggest environmental challenge there. The company launched a program to promote reusable water bottles by offering visitors the opportunity to buy squeeze bottles that can be refilled with cold mineral water at several refill stations across the island, drastically reducing plastic trash at the park.

Similarly, at Christ the Redeemer Park in Rio de Janeiro, the company has partnered with the World Wildlife Fund to create a plastic recycling program called "REMOLDA." Plastic waste is transformed into miniature Christ the Redeemer statues, which are sold in the shops operated by Grupo Cataratas at the park. A portion of the revenue is donated to the community.

Among other initiatives, the company is funding scholarships for young researchers and PhD candidates in the Iguazu National Park to help protect the jaguar, the symbol of the park. Cataratas also sponsors Project TAMAR, the largest sea turtle conservation project on the planet. As part of this program, the company guarantees the conservation of the turtles' habitat. Meanwhile, the group's aquarium in Rio de Janeiro donates 5% of all revenue coming from annual membership fees to scientific research in partnership with the Marine Life Department of the Federal University of Rio de Janeiro.

In Rio de Janeiro, Cataratas sponsored the creation of a school to offer free English-language courses to residents of poor communities around Christ the Redeemer Park. Many of the company's employees are also volunteer teachers. Fluency in English has created opportunities for members of these communities to work as tour guides for foreign visitors at the park.

DATE OF INVESTMENT JUL 2015

AMOUNT US$18.9 MILLION

PARTICIPATION/STAKE 92%

COMPANY NAME

GeneSeas
www.geneseas.com.br

INDUSTRY / SECTOR Aquaculture

LOCATIONS

Santa Fe do Sul & Aparecida do Taboado, Brazil

DESCRIPTION

GeneSeas is a Brazilian integrated tilapia producer and processor. The company has operations at every stage of the tilapia value chain, including production of feed (through its partner company Aquafeed) and breeding of fingerlings to raising the fish at farms, processing, and distribution. The company also has 9k ton/year production capacity and a state-of-the-art processing facility. Founded in 2002 and led by a team of dynamic entrepreneurs, the company now has a leadership position in the market. Its facilities are well located, close to consumer markets, but also close to third-party fish suppliers. GeneSeas has 500 employees in São Paulo and Mato Grosso do Sul with a distribution network in São Paulo which includes more than 2,000 active clients, ranging from restaurants to grocery stores.

INVESTOR PROFILE

Aqua Capital was founded in 2009 with the intention of focusing on the fast growing agribusiness sector in Brazil and the rest of South America. The fund targets middle-market companies located outside of Brazil's large metropolitan areas in a broad range of agriculture-related sectors. Target companies have annual revenues of US$15-300 million. Aqua currently has nine portfolio companies.

FUND NAMES

Agribusiness and Food Fund I

FUND SIZE US$173.4 million

TOTAL AUM US$475 million

OPPORTUNITY

Aqua Capital has long considered opportunities in the production and processing of proteins in Latin America, as well as related sectors such as animal health and nutrition. As beef, chicken, and pork production were already dominated by large players, Aqua focused in aquaculture, a less developed and more fragmented sector. While fish consumption has seen impressive growth in recent years, with its share in protein consumption growing from 6.5% to 11% between 2005-2011, it has not received investments from large players in the animal protein segment despite the availability of fresh water and low-cost grain.

After extensive research throughout regions and species, Aqua identified tilapia in Brazil as a prime target for investment. Consumption of tilapia in Brazil grew at 12% CAGR between 2003 and 2012, while prices have been rising both in Brazil (16% YoY) and the USA (5% YoY) since 2009. Despite the potential, the market is highly fragmented in Brazil and the seven largest producers have only 12% of market share. Few companies are professionally managed and have good infrastructure, and there were high barriers to entry for new players.

GeneSeas was one of the largest and best run companies in the country, with very well located facilities that had excellent conditions for tilapia farming and abundant availability of third-party fish to process. One of Aqua's partners had identified GeneSeas as a possible investment target nearly a decade earlier and had developed a relationship with company management, highlighting the advantages of a sector-focused private equity firm. When the owners decided to sell the company in late 2014, Aqua was one of three parties selected to participate in the bidding process. Because of Aqua's experience in this sector, the long relationship, and fast turnaround, it quickly obtained exclusivity to negotiate.

EXECUTION

Although GeneSeas was already growing at a moderate rate when the investment was made, Aqua Capital identified a series of initiatives that would dramatically improve the company's results. Initial changes took place on the management side, where the structure was strengthened with the appointment of new CEO and CFO. Aqua also played an instrumental role in upgrading and expanding sales and marketing by quadrupling the size of the salesforce, overhauling its structure and creating more sales incentives, ultimately improving results. The process included intensifying the training process to improve sales and standardize the sales process. As a result, exports increased to roughly 15% of current revenues from practically zero.

In tandem, GeneSeas decided to expand its product line to capitalize on its distribution capabilities and to become a one-stop shop for client's fish needs. Following extensive market research, GeneSeas included four new product lines including kani kama, squid, pollock, and salmon. GeneSeas imports directly from producers globally and distributes together with its own tilapia.

With backing from Aqua Capital, the company was able to build and launch a new state-of-the-art processing facility in record time and roughly 8% under projected capex. The plant is located close to the GeneSeas fish farms in an area with a significant number of third-party fish farms, which has resulted in yearly savings of R$1.2m in logistics costs. With the new plant, GeneSeas has doubled its processing capacity, generating strong scale gains. With Aqua Capital's assistance, the company secured a government loan with subsidized interest rates and an extended amortization schedule to construct the new plant.

Aqua Capital also identified 32 initiatives which aimed to reduce costs by 17% per kilogram of fillet produced over a 15-month period. The plan was based on three pillars: (i) economies of scale; (ii) operational improvements; and (iii) cost cutting. These initiatives ranged from reduction in transportation costs, to an investment in new machinery to speed the process of freezing the fish, to cutting electricity costs by using a generator during the hours when electricity costs are highest. Although the initiatives started at the beginning of 2016, by the end of Q3 2016, 21 out of 32 measures were fully implemented and costs have already been reduced significantly.

OUTCOME

With the recent capacity increase and the changes in the company's strategy, GeneSeas is expecting a 50% increase in revenues in 2016 in comparison to 2015. The company sees growth figures continuing at these levels in coming years as the company expands its market share and takes advantage of its new capacity. Furthermore, with minimal investments in the future, processing capacity may be increased to 28,000 tons of tilapia per year, up from 8,000 tons last year. Likewise, with new investments, the company now controls its entire supply chain, from feed to fingerlings. As the company continues to gain scale and professionalize, GeneSeas shall be an attractive acquisition target for one of Brazil's large animal protein companies interested in expanding into fish supply. The company could also be of interest to one of the large, multinational tilapia producers seeking to invest in Brazil.

ESG IN FOCUS

Aqua has implemented its standard Environmental and Safety Policy (E&S), which has resulted in GeneSeas following environmental best practices. In September 2016, GeneSeas became the first Brazilian company to obtain the Best Aquaculture Practices ("BAP") certification. This means GeneSeas can supply fish to both national and international markets, providing a product obtained with social and environmental awareness and responsibility. In addition to benefitting GeneSeas exports, it demonstrates the company's commitment to sustainable social and environmental development. The certification guarantees that products are free of chemicals and growth enhancers and that the company helps maintain strong relationships with local stakeholders.

The company also appointed an executive to head its environmental and social initiatives and to implement an action plan, which is monitored on a weekly basis by the CEO and on a monthly basis by the E&S Committee. GeneSeas also initiated a project to assess the capacity of the management to provide adequate oversight of environmental, social, health, and safety performance in relation to compliance with IFC Performance Standards, Brazilian laws and regulatory requirements, and relevant aspects of applicable environmental health and safety guidelines.

With the perspective of rising production comes the challenge of having a state-of-the-art sanitation control to avoid the occurrence of infectious diseases and negative environmental impacts. With the closure of the old processing plant, the company implemented a demobilization process which was in line with IFC's recommendations, including GeneSeas' offer to all employees to be transferred to the new plant with a promotion and with moving expenses paid for by GeneSeas. Additionally, the processing plant manager worked with the industries nearby the old plant to help employees, unwilling to relocate, obtain new jobs.

DATE OF INVESTMENT SEPT 2010

AMOUNT ~US$60 MILLION

PARTICIPATION/STAKE 35%

BOZANO
INVESTIMENTOS

COMPANY NAME

Hortigil Hortifruti
www.hortifruti.com.br

INDUSTRY / SECTOR

Consumer/Retail (Specialty Food Retailer)

LOCATION Brazil

DESCRIPTION

Hortifruti is a specialty food retailer in southeastern Brazil. Founded in 1989, in the state of Espirito Santo, the company currently owns and operates 42 stores and runs a large logistics operation, which includes seven distribution centers and a fleet of over 240 vehicles. The company operates in the states of Rio de Janeiro, Espirito Santo and São Paulo. Through its stores and distribution network, the company sells more than 22,000 tons of quality fruits, vegetables, dairy products, groceries, and meats to over two million customers a year. The company has nearly 6,600 employees.

INVESTOR PROFILE

Bozano Investimentos is an alternative asset management firm that focuses on Brazilian investments, with over R$3.5 billion in assets under management. Since its inception in 2008, Bozano Investimentos has focused on high-growth mid-market companies in the most dynamic areas of the Brazilian economy such as education and consumer services. Bozano Investimentos has successfully invested over the past eight years approximately R$1 billion of growth capital into 14 Brazilian companies generating a gross return of over 2.0x. Typical equity transactions range from US$20 million to US$70 million.

FUND NAME

FIP Brasil de Governança Corporativa

FUND SIZE R$600 million (~US$185m)

TOTAL AUM R$3.5 billion (~US$1.1b)

OPPORTUNITY

Bozano is always seeking high-growth segments that have business models that are independent from the broader economy. In this context, the firm identified the potential of retail segments that focus on Brazil's growing middle class, which has seen unprecedented expansion in purchasing power over the past decade. This demographic was seeing an increase in demand for high quality healthy foods and Bozano Investimentos identified Hortifruti as a way to engage that demand. At that time, Hortifruti was a small company with a limited geographic reach, but with the potential to expand into a larger, regional player.

Hortifruti was founded by three families over 20 years ago. Although the company had seen rapid growth, its future expansion was constrained by organizational limitations. Furthermore, the founding partners were concerned about the future of the company and the need to have a succession plan in place. Hortifruti's founders saw in Bozano a partner that would help them to develop and implement a growth strategy, but also to help the company transition from a small, family owned company to a larger corporation with a national presence. Bozano Investimentos' strategy was to concentrate on replicating Hortifruti's innovative business model in metropolitan areas by more than doubling the number of stores organically, as well as through the acquisition of a strategic competitor in other regions.

EXECUTION

The initial plan was to embark immediately on an aggressive growth model. However, once Bozano began working with the company management and analyzing its operations, the fund made a strategic decision to improve the company's core structure and optimize its supply chain before focusing on expanding stores. The initial changes were to the management structure. The company had many managers, but their roles were blurred and there was not a clearly defined hierarchy. Most of the existing management team remained at the company, but Bozano helped to create departments and accountability. At the same time, Bozano appointed a CFO. Rather than selecting a CFO with experience in a large retail organization, Bozano worked with the existing management to select a candidate who could adapt to the company's culture. The CFO's initial goal was to put a budget in place. Once this process was implemented, there were significant improvements in departmental management.

The second phase of this process was the development of a human resources strategy. Prior to the investment, Hortifruti's human resources department was only responsible for payroll management and had no HR planning. The first measure was to do an analysis of the amount of employee turnover. Food retailing is a labor-intensive industry, and Hortifruti had experienced higher turnover than its competitors. Once the company understood how costly this employee turnover was, all company management recognized the need to implement a strategy to increase employee retention. Bozano helped to address this issue by improving employee's satisfaction and engagement, while proposing new compensation packages for key executives. The Bozano team subsequently launched initiatives to improve store efficiencies and overall profitability. These initiatives included developing new suppliers and enhancing the product mix while maintaining fruits and vegetables as the flagship products. At Hortifruti, over 80% of sales are comprised of perishable products, with fruits and vegetables representing 50% of their sales. Hortifruti's supply chain has a significant number of suppliers, including many small agriculture producers, which created significant risk of supply chain disruption. To mitigate this risk, Bozano helped implement a number of initiatives in auditing suppliers on a regular basis, improving the long-term strategic relationship and sustainability with local farmers. As the investment matured, these strategies resulted in an increase in the average ticket size, an increase in loyal clients and in store productivity. Bozano Investimentos also led an ERP update resulting in the successful implementation of a SAP system, enabling centralized purchase processes, financial controls, and state of the art monitoring reports.

OUTCOME

During the investment period, Hortifruti went from being a small, local player with annual revenues of R$360 million and 15 stores to a company with revenues of R$1.4 billion and 42 stores across Brazil's southeastern region. The company also concluded an acquisition of a similar retailer in São Paulo with eight stores. When Bozano was prepared to exit the firm, the partners decided to hold on to their stake. Bozano began a formal process to sell its stake to another investor. In a very competitive sale process, Bozano Investimentos selected some funds to perform a full audit of the firm and ultimately chose Swiss private equity firm Partners Group, which was interested in investing in Brazilian retail and was an excellent fit for the company. Returns were equivalent to 2.6x on invested capital.

ESG IN FOCUS

Following Bozano's investment, Hortifruti experienced major changes to its governance and management team, as a consequence of a thorough professionalization process. Bozano Investimentos improved corporate governance by creating and participating in meetings of the board of directors, finance committee, corporate governance committee, expansion committee, and a fiscal committee to monitor internal and external auditors as well as processes. Bozano Investimentos hired a large accounting firm, which produced audited annual reports. The company also went through an "IPO readiness" program, which prepared it to be listed. This process included 34 initiatives to improve governance and financial reporting.

Hortifruti also developed a series of initiatives to encourage and disseminate the importance of healthy eating habits, including workshops and activities mostly targeted to children and teenagers. Such initiatives were encouraged by several marketing campaigns during each new store inauguration. Hortifruti's close relationship with farmers and other health food suppliers has been critical to support the growth strategy and under Bozano's guidance, the company financed a number of solutions to improve the quality of products, harvesting and storing processes, improving soil drainage and subsequently the profits of suppliers. Because there were limited organic suppliers when Bozano made the investment in Hortifruti, the company began a process of helping small farmers to become certified, which is a long and complex process. This allowed them to grow the organic suppliers, helping to develop this market in Brazil. Hortifruti also implemented initiatives to optimize energy consumption, contributing to lower environmental impact and waste reduction. Finally, by reducing food waste through implementation of more efficient food processing at the store level, Bozano helped address sustainability issues, while also lowering costs.

DATE OF INVESTMENT MAY 2007

AMOUNT US$2.3 MILLION

PARTICIPATION/STAKE 68.67%

COMPANY NAME

Albia
www.albia.cl

INDUSTRY / SECTOR

Services (Industrial Laundry)

LOCATION

Chile

DESCRIPTION

Albia is a provider of industrial laundry services in Chile. Its main clients include Chile's most important hotels, health clinics, hospitals, and mining companies. As of September 2015, the company had operations in six Chilean cities, including Santiago and Valparaiso. At that time, the company had a total of eight industrial plants and a ninth plant under construction.

INVESTOR PROFILE

Ecus Private Equity is a local, dedicated and independent private equity fund manager with vast experience in the Chilean small and middle market. It has been operating since 2005, when it launched the Ecus Private Equity Fund I, which targeted investments in high growth sectors. In 2012, Ecus launched its second fund, the US$30 million Ecus Agri-Food Fund I, which focuses on investments that can add value to Chile's agricultural and aquaculture industries. Today, Ecus is fundraising for its third fund, Ecus Agri-Food II, and working on the development of a private debt fund, which will aim to bridge the financing gap faced by small and mid-sized companies. In addition to Albia, Ecus has invested in four other portfolio companies in a broad range of sectors.

FUND NAME Ecus Private Equity I

FUND SIZE US$30 million

TOTAL AUM US$60 million

OPPORTUNITY

Ecus identified the industrial laundry industry as a well-established business that had significant room to grow in Chile because the segment was highly fragmented, offering consolidation opportunities. Likewise, the industry itself had extremely high growth in traditional segments that outsource their laundry operations, such as hospitals and hotels, but also ample room for expansion into new sectors, specifically Chile's mining sector, food services, agribusiness, and transportation sectors. At the time of this investment, Chile had no clear market leader, with a limited number of players operating in more than one city. This meant that in addition to the consolidation potential, there was also ample opportunity to improve efficiency and to quickly gain scale through regional expansion.

After an in-depth market analysis, Ecus invested in the number one player in the hospitality segment, which had operations in Santiago and Valparaíso. In addition to the market share of this company, its founding partner had vast experience in the European market and played a fundamental role in the development of the company's operational strategy in the following years. In the next phase of the investment, Ecus acquired the leading player in the segment that catered to the healthcare sector, which had operations in both Santiago and Temuco. These two companies were merged to create Albia, which was then used as a vehicle for future acquisitions as well as for organic growth. With the creation of the new company, investments were made in plant modernizations and a new IT system, as well as the company's human resources, with the goal of improving and professionalizing the organizational structure.

EXECUTION

Once the core company was created through the merger of the two market leaders, the next challenge was to develop a long-term strategy and a clear business plan. Company management was also focused on identifying and executing the necessary M&A transactions in order to position Albia as the industry's undisputed leader. This involved identifying acquisition targets throughout the country, and in some cases, recognizing that it was necessary for the firm to make greenfield investments where there was market potential, but no viable acquisition targets. Simultaneously, Albia also initiated a sector-diversification plan, which involved incorporating new clients in the mining, food, and transportation sectors. As the company grew, Ecus contributed to the process of forming an autonomous management team of executives with experience in the sector. These executives were given stock options, which increased their commitment to the company and hence helped fulfill its growth potential. Key initiatives of the new management team included improving pricing segmentation, as part of a broader effort to meet the specific demands of each client. With the ramp-up of each new plant, there was an in-depth modernization plan, which aimed to standardize the industrial processes of all the company's plants in an effort to increase operational efficiency.

As the company's linen services expanded, it moved toward standardization of linens, away from a model in which the client owned the linens to a model where the client rented the linens. This facilitated the logistics processes and improved the overall operational efficiency. With a standardized product, Albia gained greater control over its production and logistics processes, thus reducing costs for the company.

Along the same lines, a plant maintenance plan was implemented in order to virtually eliminate unscheduled plant outages. Together with the overall modernization of the company, a new, more sophisticated IT system was introduced, which allowed decision-driving reporting tools. As the company grew, it was necessary to create a specific quality control department to reduce rejected products and increase client satisfaction. These efforts pushed customer retention to 99%. As the company's linen management division expanded, the company improved traceability and logistics' efficiency.

OUTCOME

From the time of the investment in 2007 and until the exit in 2015, the company saw its revenues grow at a CAGR of 20%, considering both acquisitions and organic growth. Albia became the only player in the local market capable of serving large corporate clients that wanted a single provider for their laundry services throughout the country. With increased scale, Albia experienced a significant diversification of its client base, both by sector and regionally. Under Ecus' guidance, Albia focused on improving the efficiency as well as implementing a more rational pricing, which contributed to an average annual EBITDA growth of 25% during the eight-year investment period. With the company's operations consolidated and its strong position as the market leader in this segment, Ecus, along with its other partner and the management team, sold a 100% stake in Albia to Elis, Europe's leading textile maintenance and rental provider for US$14.8 million, earning 5.3 times the original investment and an IRR of nearly 25% over the eight-year holding period.

ESG IN FOCUS

One of Ecus' main goals was to improve corporate governance and to transform a family-owned company into a professional corporation. Ecus accomplished this via the continuous strengthening of its hiring process and the implementation of an organizational structure which included hiring of a new CEO and CFO at the time the investment was made. Ecus also brought in a COO with 20 years of experience in the European laundry industry in 2013. This governance process also applied to companies which were acquired as part of the roll-up strategy. The company founder, who continued as an executive director after the acquisition, was very focused on plant efficiency and innovation. He would purchase used equipment in Europe and overhaul this machinery to be more efficient. He also developed a system which used the discarded hot water from the washing machines to help in the laundry drying process, thus reducing the energy use of the plant. After Albia was acquired by Elis, some of Albia's innovations were incorporated into Elis's operations in other countries.

MAESTRO

DATES OF INVESTMENT 2007, 2009

AMOUNT US$195 MILLION

PARTICIPATION/STAKE 97%

ENFOCA

COMPANY NAME
Maestro

INDUSTRY / SECTOR
Consumer/Retail (Home Improvement)

LOCATION
Peru

DESCRIPTION
Maestro is a Peruvian home-improvement and building supplies retailer. During Enfoca's investment period, Maestro expanded from a local retailer with only six stores in Lima to 30 stores nationwide. In the same period, sales revenues grew from US$129 million to US$543 million. In 2014, Maestro was sold to Chilean Group Falabella for an enterprise value of US$719 million, 16.4x LTM EBITDA multiple. The investment generated a 24% gross IRR and a 2.3x gross MOIC.

INVESTOR PROFILE
Founded in 2007, Enfoca is a Peruvian private equity fund with US$484 million currently under management. Enfoca's investment thesis concentrates on investing in companies operating in high growth sectors that are primarily exposed to Peru's emerging middle class. To date, Enfoca has invested in leading companies in retail-home improvement, healthcare, higher education, media, air cargo and logistics, fishing, and real estate.

FUND NAME Various Funds

FUND SIZE US$640 million

TOTAL AUM US$484 million

OPPORTUNITY

Peru has experienced a rapid middle class expansion over the past decade, which has increased the amount of discretionary income for working Peruvians. Enfoca was looking for opportunities to capitalize on these trends and identified Maestro as a potential target. The construction materials and home improvement segment is an indirect play on the housing market, roughly 80% of which is self-construction. At the time of the investment in 2007, Maestro was the first entrant in the formal "big-box" home improvement sector, a segment with high growth potential and repressed demand. The retailer had only 3% market share at that time, with enormous potential to grow in a highly-fragmented market of more than 4,000 small "mom and pop" hardware stores. Enfoca also recognized the need to offer consumers a better shopping experience with specialized customer service, credit support, and a wider variety of products at more competitive prices. Enfoca's investment thesis recognized the opportunity that Maestro had for accelerated growth through an aggressive nationwide store opening plan. At the time of the investment, Maestro was ready for a turnaround and the family that owned the company was actively seeking a partner to define a strategic direction for the business, strengthen the company's execution platform, alleviate financial pressure, and accelerate its future growth in the face of rising competition.

EXECUTION

In August 2007, Enfoca made an initial investment of US$12.2 million (6.8x LTM EBITDA) which was used to launch a store expansion program and strengthen the company's IT systems. Over the next two years, Enfoca worked closely with the founding partners of Maestro to begin restructuring the company to achieve long-term sustainable growth. Enfoca achieved control in December 2009 with further investments of US$62.6 million from Enfoca-managed funds and US$67.5 million from co-investment partners. From December 2010 to December 2012, Enfoca invested US$120.3 million in five additional transactions to acquire the co-investors' equity.

The turnaround process began with a substantial change in the retail model. Before Enfoca, Maestro focused on providing a wider selection of primarily decoration products, positioning itself as the home improvement of choice for higher-income customers. It

was a boutique business model with smaller stores which sold a diverse range of products, from power tools to Christmas products. Enfoca sought the to expand Maestro's target market to the base of the pyramid (middle and low income Do It Yourselfers (DIY)) and to professional small and medium contractors. The revamped strategy meant to position the company as the leading supplier in Peru for home improvement and construction projects of all types. To achieve these goals the turnaround plan included: (i) implementing larger big box stores that could carry enough inventory to fulfill DIY and contractor requirements, (ii) sourcing a wider professional home-improvement assortment, (iii) implementing expert customer service in the store, (iv) developing a highly competitive pricing strategy and (v) providing access to financing for end-customers and contractors.

Under Enfoca's shareholding Maestro developed a national and global network of suppliers, building strong relationships particularly with Asian and Latin-American manufacturers. The new sourcing capabilities allowed the company to benefit with differentiated higher quality products, lower stock-outs and higher margins. Enfoca continued to transform Maestro's business model to become a fully customer-oriented company with leading service and high customer loyalty. This included creating an internal "University" to continuously train the store's sales personnel as project advisors. Each company employee received hands-on technical training on a regular basis in order to provide a superlative experience to customers looking for professional help in the stores. To further expand the consumer base and facilitate project sales, Enfoca introduced a proprietary credit card program in a joint venture with Crediscotia (Scotiabank), offering credit to middle and low-income clients who didn't have access to the banking system.

OUTCOME

Under Enfoca's administration, Maestro had an outstanding performance throughout 2007-2013. Not only did its sales increase from US$129 million to US$543 million, its same-store sales grew at an annual average rate of more than 6% and EBITDA increased from US$8 million to US$54 million, with the EBITDA margin increasing from 6.1% to 9.9%. Although Peru experienced an unforeseen economic slowdown in 2014, which affected the home improvement sector, the company was well-positioned to capitalize on future economic recovery. Maestro continued to grow over the years and reached 10% of market share in a segment still considered to be underpenetrated. Furthermore, Maestro had become a potential strategic asset for its competitors looking to expand in a sector where entry barriers for newcomers were rising, as well as for strategic international players interested in entering the Peruvian home improvement market and looking for a sizeable initial platform for growing in the South American region. To exit, Enfoca began a sales process which was managed by Bank of America-Merill Lynch and Morgan Stanley in order to create competitive tension, maximizing the enterprise selling value. Eventually, Chilean Group Falabella, owners of competitor Sodimac, paid US$492 million for 100% of the company's equity and also assumed US$233 million in outstanding net debt. That price represented a 16.4x LTM EBITDA multiple and a total transaction value of US$719 million. The investment generated a 24% gross IRR and a 2.3x gross MOIC.

ESG IN FOCUS

As a minor shareholder, Enfoca worked together with management to improve Maestro's performance and corporate governance in preparation for sustained growth. During this stage, Enfoca: (i) transformed Maestro from a family-owned business to a professionally managed company with professionalized governance, including introducing a deputy CEO, (ii) implemented a new, robust, front-end and back-end IT system in preparation of expansion plan, (iii) initiated the first stage of store expansion (growing from six to 12 stores) in line with the strategic long-term goal of maintaining market leadership.

On the latter stage, as a majority shareholder, Enfoca: (i) strengthened the management team with the addition of a new CEO, CFO, and Chief Marketing Officer (ii) led a US$200 million international bond offering in order to finance store expansion plan and restructure short-term debt, (iii) further expanded footprint in the region by growing from 12 stores to 30 retail stores at exit and (iv) enhanced the business model, increasing focus on becoming a more customer-oriented company with leading service and high customer loyalty, which included implementing a differentiated approach to customer segmentation, optimizing and modernizing store layout and brand, among others.

DATE OF INVESTMENT OCT 2011

AMOUNT ~US$3.05 MILLION

PARTICIPATION/STAKE 54.6%

COMPANY NAME

Ver de Verdad

www.verdeverdad.mx

INDUSTRY / SECTOR

Healthcare

LOCATION Mexico

DESCRIPTION

Ver de Verdad is a chain of modern eyeglass stores dedicated to the vision needs of the lower and middle class populations of Mexico. Ver de Verdad offers high-quality glasses at affordable prices through free eye exams and personalized image consultations, with an unconditional money-back warranty. The company seeks to establish a significant national presence by leveraging four competitive advantages: low price, fast delivery, convenient location, and the right product mix. The company currently operates 60 stores across small and mid-sized cities in Mexico and plans to reach 300+ locations by 2020.

INVESTOR PROFILE

IGNIA is a venture capital firm that supports high growth enterprises serving the emerging middle class in Mexico. IGNIA is focused on areas that improve the lives of middle class and low-income families, such as healthcare, housing, financial services and basic services, which include access to water, nutrition, and financial services. By providing effective responses to the enormously underserved needs of low-income populations, IGNIA empowers entrepreneurship while creating attractive financial returns for its investors. IGNIA currently has nine companies in its portfolio.

FUND NAME IGNIA Fund I

FUND SIZE US$102 million

TOTAL AUM US$200 million

OPPORTUNITY

Over 43% of Mexicans need eyeglasses, but the current industry model caters primarily to high-income demographic segments and sells branded frames with prices above US$100, a steep price for a product that is not covered by public or private insurance. When IGNIA first heard about Ver de Verdad, it was little more than an idea being developed by Mexican entrepreneur Hugo Moreno. Moreno was the CEO of Mexican NGO Salud Digna, which provided diagnostic medical tests to the poor at affordable prices. During his time at Salud Digna, Moreno believed that he could create a business that would offer eyeglasses to people at the base of the socioeconomic pyramid, thereby tapping into the underserved demand in the emerging middle class, potentially doubling annual eyeglass sales in lower income segments from 8.3 million to 16.8 million units. Although the idea was compelling, the opportunity was initially declined by IGNIA because it departed from the fund's model of investing in companies with proven business models. However, after further evaluation, IGNIA's own experience in businesses that focus on that target demographic, coupled with Hugo Moreno's experience in the sector, compelled the fund to invest in Ver de Verdad.

EXECUTION

Because IGNIA invested in Ver de Verdad in its seed stage, the fund participated in the entire value generating process of Ver de Verdad. Although Moreno led the company's strategy and execution, IGNIA acted as a sounding board to help perfect the company's value proposition and strategy. When Ver de Verdad launched, IGNIA dedicated a great deal of attention to developing the retail concept alongside the entrepreneur. While the traditional mom-and-pop eyeglass retailers were closed, dark, and had limited inventory on display, Ver de Verdad stores exuded a fresh, modern, and amicable image with bright colors, displaying lots of visible inventory. The stores were located in areas of high foot traffic, and pedestrians were greeted by friendly associates who offered free five-minute eye examinations performed by the store's optometrist. The store environment was designed to have an informal, approachable feel so that potential clients did not feel intimidated, and the eye glasses were treated as a fashion accessory by a young and dynamic sales staff.

IGNIA also played a role in establishing corporate governance best practices, including forming a board of directors and board committees, holding monthly board meetings, designing management compensation packages, and establishing corporate accountability standards. The board helped create a disciplined and clear organization, which often acted as a working group to discuss key strategic decisions. IGNIA could build on its previous experiences targeting this socioeconomic segment, which played an important role in developing Ver de Verdad's strategy.

As the company scaled, IGNIA played a role in hiring key executives, including the CFO and the director of expansion, and in establishing key metrics to monitor and minimize working capital. With IGNIA's support, Ver de Verdad reduced the number of luxury SKUs and kept only lower-priced products that sold more quickly. Because of these measures, outstanding inventory declined significantly, enabling the company to optimize its cash flow to scale more efficiently.

OUTCOME

Serving the Mexican emerging middle class requires targeted business models, and Ver de Verdad's focused value proposition, which highlights a free eye examination, low prices, quick delivery and the right product mix, has enabled the company to be highly successful in a market that a number of incumbents have failed to penetrate. In 2015, when Ver de Verdad engaged investors to finance its national expansion, the company's disruptive value proposition, coupled with its demonstrated traction, generated strong interest from potential investors. At this point, the company had already demonstrated strong profitability at the unitary store level, with high EBITDA margins in existing stores and short periods to break-even in new ones. This demonstrated traction made Ver de Verdad an attractive investment opportunity, enabling the board to choose among several attractive financing alternatives. In November 2015, Ver de Verdad completed the equity placement with a consortium of three Monterrey-based family offices, and as part of the transaction IGNIA sold a portion of its shares to the new investors. The valuation at which the transaction took place implied an IRR of over 40% (2.8x cash-on-cash) in Mexican pesos for IGNIA. Ver de Verdad has since tripled its number of locations and is aiming to operate 330+ stores by 2020. IGNIA expects to divest the remainder of its position in 2018 with an attractive financial return.

ESG IN FOCUS

Ver de Verdad's business model creates significant social value by improving access to better vision in Mexico. By offering low-priced, high quality eyeglasses and free eye examinations to low-income families, the company is tapping into the enormous repressed demand for affordable eyeglasses in Mexico. In fact, 53% of Ver de Verdad's adult clients are first time prescription eyeglass users and 54% of the eyeglasses sold are within the target price range of US$14-$30, which is significantly lower than the US$100 starting price point of most competitors. By serving this segment, Ver de Verdad is doubling the market for eyeglasses for lower-income Mexicans from 8.3 million to 16.8 million units sold per year.

From a corporate governance perspective, Ver de Verdad has adopted best practices from inception, including the formation of an eight-person board of directors that meets monthly and includes compensation, audit, and expansion and marketing committees. The company also delivers non-audited financials and KPIs to shareholders monthly, and is in the process of hiring an accounting firm to perform annual financial audits. In 2013, the company's value creation initiatives were recognized through the National Quality Award, which is granted annually by the President of Mexico to companies that exemplify quality and competitiveness.

DATE OF INVESTMENT MAY 2012

AMOUNT US$21.7 MILLION

PARTICIPATION/STAKE 40%

COMPANY NAME

Distribuidora Rayco
www.almacenesrayco.com

INDUSTRY / SECTOR Consumer/Retail

LOCATION Colombia

DESCRIPTION

Rayco is a Colombian retailer specializing in the sale and financing of a broad array of consumer goods, ranging from home appliances to domestic goods, electronics, and even motorcycles. The majority of sales are made on credit and are oriented towards the low-to-middle income segments of the population. Founded in 1976 by a Colombian entrepreneur, the company has grown from a small operation selling appliances to a nationwide operation with 68 points of sale covering a large portion of the secondary and tertiary cities in Colombia. Rayco has agreements with 23 utility companies across the country where they can incorporate their credit collections into the customer's utility bills, which plays a key role in facilitating financial inclusion and gives the company direct access to millions of clients.

INVESTOR PROFILE

Kandeo was founded in 2010 by senior business professionals with global experience in a wide range of sectors. The fund manager primarily targets financial services companies focused on people or SMEs that have limited access to traditional banking and credit services. These industry segments include microcredit, fixed-asset financing, working capital financing, payroll-deducted loans, housing development, among others. Kandeo typically seeks to make investments of US$15-US$50 million. Currently Kandeo has nine companies in its portfolio.

FUND NAME Kandeo Fund I

FUND SIZE US$126 million

TOTAL AUM US$377 million

OPPORTUNITY

Kandeo's approach is to invest in companies that provide financial services to people and SMEs that are not efficiently or effectively attended to by the traditional financial system. Rayco was an obvious fit with this thesis because its business model is focused on providing financing for essential domestic goods in a segment of the Colombian population that otherwise has very limited access to credit opportunities. Roughly 80% of all Rayco's products are financed and a majority of these clients do not have access to bank financing. Likewise, Rayco targets regions of the country where large, established retail chains have limited presence. In addition to the company's retail stores, Rayco extended its reach via traveling points of sales, known as brigadas, which would go to small towns to sell to rural populations. Rayco had also negotiated partnerships with utility companies, enabling installment payments to be charged directly to the client's monthly utility bill helping to keep default levels low. Kandeo saw an ideal opportunity to utilize its capital and experience in the sector to grow the operation in a market where demand was exceeding supply.

Prior to the investment, Kandeo's management had a strong relationship with the company founder. He had been in the industry for nearly three decades and had recently stepped away from the day-to-day management of the firm. Although he was not specifically looking for a partner, he recognized that larger players had initiated the process of expanding into Rayco's target market. Kandeo's experience in this sector convinced the founding partner that in addition to capital, Kandeo would provide know-how to help maintain and expand its market share without compromising profitability.

EXECUTION

Although Rayco was an established company with a strong business, Kandeo immediately recognized several areas where new systems could improve efficiency and boost the company's profitability. This process started with changes to the management, including the replacement of the CEO who had been appointed to replace the founding partner. Additionally, the company also brought in a new CFO and a new purchasing manager. Several management committee roles were then created to implement changes to the company. The finance committee looked at ways to improve the company's existing system for analyzing and granting credit. To streamline the process of approving new credit operations, Kandeo helped transition Rayco from a de-centralized system, where each individual store would analyze credit risk and decide whether to grant credit to the consumer, to a model where all credit decisions were made centrally by a single office. In tandem, the company is also developing a system of credit scoring, based on its own extensive data base.

The company actively worked to bring down the cost of financing on the liabilities side of its balance sheet. With the increase in equity from the Kandeo investment, Rayco was able to re-negotiate its trade financing with banks. With Kandeo's help, the company also began accessing financing available from other institutions and development banks interested in supporting the company's mission and vision, further reducing its cost of capital.

Kandeo also played a fundamental role in revamping the company's purchasing processes. In the past, Rayco mainly purchased its items from distributors, rather than directly from the suppliers, which increased costs. After an in-depth analysis of the company's product offering, the company opted to reduce the number of products it carried. By consolidating purchasing, the company benefited by economies of scale and improved its margins. Kandeo also helped Rayco to look at its pricing policy. By implementing a more data-based analysis of its pricing, the company discovered that some of its producers were being sold at a loss. This process involved the optimization of the company's points of sale, which ultimately led to the closure of some stores that were not profitable.

Kandeo also helped Rayco overhaul its accounting system and processes to ensure that it was in accordance with international standards and correctly reflected value generation of the operations. This included the selection of one of the "Big Four" accounting firms to ensure the highest international accounting standards were used in the company.

OUTCOME

Since Kandeo's investment in Rayco, the company has been transformed from a family-controlled company to a professional corporation. It has gone from being primarily a retail-oriented company to being a financial services company with a strong retail arm. The company now has systems in place that allows it to make data-based decisions. Although sales have been hurt by the economic downturn in Colombia, the increase in efficiency contributed to a 20% increase in company EBITDA over the past year, despite the negative macroeconomic cycle. Rayco will be well-positioned to take advantage of the increase in disposable incomes of Colombians from all social classes in a future economic recovery. In this context, the company will be a possible acquisition target for a large retailer – either of domestic or international origin – interested in expanding into second- and third-tier Colombian cities.

ESG IN FOCUS

One of the most important new initiatives which was spearheaded by Kandeo is the development of a new business area dedicated to help independent rural workers buy modern agricultural and hand tools. Many rural workers in Colombia are using the most rudimentary tools and do not have access to money to buy new ones. This means that they work inefficiently and sometimes in dangerous ways, and buying new tools is difficult for many of them. With Kandeo's help, Rayco secured a CAD$50,000 grant from the Mennonite Economic Development Associates (MEDA), an international economic development organization. The grant is being used to implement a new program that uses Rayco's Brigada model to bring travelling points of sale to rural areas and to offer access to financing, whereby getting better quality agricultural tools into the hands of Colombian farmers and laborers. With better quality tools, these rural workers are more productive and can pay back the loans more easily because of increased revenues. To date, this program has expanded the company's geographic reach to 19 new rural areas, where it currently has an average transaction amount of US$128.

Rayco is consistently dedicated to supporting its local community, which can be seen through its contributions to local sports programs, medical organizations, and community development programs. Additionally, Kandeo has implemented a governance committee and a risk committee, while contributing to the overall formalization of, and adherence to, general corporate governance procedures.

centro.

DATE OF INVESTMENT MAR 2015

AMOUNT MXN$73.1M (US$4.8M)

STAKE IMPORTANT MINORITY

LIV CAPITAL

COMPANY NAME

Holding Universidad Centro
www.centro.edu.mx

INDUSTRY / SECTOR Higher Education

LOCATION Mexico

DESCRIPTION

Centro is an institution for higher education specialized in creative studies in Mexico. Since it was founded in 2004, the company has developed into a highly-regarded hub for innovation in the areas of design, fashion and communication. Centro has established a strong brand identity across the Mexican education landscape and has prepared a new generation of talented and successful designers by mixing theoretical and practical content through its educational offering which include undergraduate, graduate and continuing educations programs, as well as training certificate offerings.

INVESTOR PROFILE

LIV Capital is a Mexico City-based private equity firm that invests in early and growth stage companies targeting Mexico and the broader Latin American markets. Founded in 2000, the firm has raised six funds totaling approximately US$320m in aggregate capital commitments. LIV partners' management teams seeks opportunities to apply proven business models to build large-scale businesses in high-growth segments of the regional economy. The firm is a generalist investor with a strong track record in the TMT and business services sectors, and is currently actively investing from its Fund IV (Growth Equity) and LIVE Fund I (Venture Capital).

FUND NAME

Latin Idea Mexico Venture Capital Fund III

FUND SIZE US$102.2 million

TOTAL AUM US$276.7 million

OPPORTUNITY

Current hiring trends are working in favor of creative professionals. In Mexico and the rest of the world, the demand for personnel focused on creative areas has increased significantly in recent years. A wide range of creative sectors such as advertising, architecture, cinema fashion, and design have become an important component of modern economies. LIV Capital identified these trends, and saw in Centro an opportunity to capitalize on the rising demand of student and professionals looking for focused training in creative studies. Centro is a high-growth, premium education institution in Mexico, with a reputation as the best creative studies university in the country. Although Centro was already a successful, fast growing business, it was in the process of building a new state-of-the-art campus that would allow the company to grow at a much faster rate. Initially, the founding partner of Centro had received angel investments and did not plan to sell a stake in the firm. After talks with LIV Capital, it became clear that a partnership with the fund manager would help the company to transform Centro from a small, family-owned firm into a professional corporation. The investment came at a time when the company would no longer face space constraints and needed to adapt its business model in order to grow quickly and sustainably.

EXECUTION

LIV Capital made the investment in Centro at a moment that the company was preparing for a significant shift in its growth paradigm. As part of this process, LIV Capital worked very closely with the founder and CEO to adapt the business plan to the company's new reality.

While top executives remained in their positions, LIV Capital helped the company to improve governance and its internal decision-making processes. This included the creation of an internal executive committee with structured monthly meetings aimed at monitoring performance. The company also instituted bi-monthly board meetings, which have been instrumental in improving the decision-making process. Diversification of the Board of Directors has empowered management, while providing sufficient autonomy to explore additional growth opportunities in a more dynamic manner. This board also acts as a sounding board for management to test new ideas.

Throughout this process, LIV Capital played a crucial role in helping Centro's management expand its programs and target audience. This included the decision to expand into continuing education and non-degree programs targeting people who were already in the labor force but wanted to improve their skills or even transition into a new profession. Additionally, Centro is developing a more targeted sales approach aimed at expanding its course offerings to attract companies. In response to recent trends in the job market, Centro is also expanding its course offerings to include coding and animation.

In addition to its contribution to the development of a new long-term strategy, LIV Capital helped the company to reduce its financing costs. Prior to LIV Capital's investment, Centro had a suboptimal balance sheet that included a long-term loan with unattractive terms. LIV Capital, together with management, successfully restructured the loan, with new terms including an increase in the loan amount and an interest rate collar to protect against adverse movements in variable rates.

The combination of Centro's well-positioned brand and new campus resulted in impressive growth and also set the groundwork for rapid expansion for years to come.

OUTCOME

Prior to LIV Capital's investment, Centro was controlled by a single non-institutional shareholder. Since the investment, Centro's undergraduate enrollment has increased 40% year-over-year, while enrollment in graduate programs has increased by 200% year-over-year. These factors have contributed to a 50% increase in revenues. Centro also completed the launch of its newly designed continuing education offering comprised of over 150 programs. Centro's ability to respond to these trends, coupled with the strong track record that its students have in the job market, will continue to contribute to the long-term, sustainable growth of the company. Management is currently analyzing an opportunity to create an on-campus design lab that will combine studies in technology, design thinking, computer science, and business. This project would allow Centro to innovate further in the creative studies arena, expanding its course offerings.

ESG IN FOCUS

As Centro's first institutional investor, LIV Capital has led the design and implementation of proper corporate governance best practices, the development of institutional information reporting and compliance standards, and the creation of checks and balances regarding strategic decision making. LIV Capital has developed and implemented corporate governance procedures, including reporting standards, regular board meetings and executive committee meetings, and modern financial, accounting and operating control systems.

On the environmental side, the new campus was awarded the LEED Platinum certification by the United States Green Building Council. Mexican education authority also certified Centro's new campus as an institution of higher education in Q2 2015.

DATE OF INVESTMENT NOV 2015

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 60%

MACROCAPITALES
Sociedad Administradora de Fondos de Inversión

COMPANY NAME

Charlotte
www.charlotte.com.pe

INDUSTRY / SECTOR

Food Service Management/
Out-of-Home Dining

LOCATION Peru

DESCRIPTION

Charlotte is a Peruvian food service management company with over 30 years in the market. It offers a wide range of services from catering to coffee shop and restaurant management. Charlotte provides in-house food services to institutional clients including health clinics, colleges and universities, as well as corporate clients including Coca Cola, IBM, and BBVA. Charlotte also operates gourmet cafés, restaurants and bars for the general public. Currently, Charlotte manages 43 points of service throughout Peru, with the goal of expanding regionally in the near future.

INVESTOR PROFILE

Macrocapitales is an umbrella organization founded in 2010 by a team of professionals with experience in the Peruvian market. Marcocapitales is a general partner in the Fortaleza fund, which focuses on Peruvian mid-cap companies in the healthcare, education, agribusiness, industry, commerce, and energy sectors. All of these segments have benefitted from strong economic growth following a wave of government reforms as well as the rapid expansion of family-controlled companies that lack access to growth capital from traditional sources of financing.

FUND NAME

Fortaleza Private Equity Fund I

FUND SIZE US$50 million

TOTAL AUM US$50 million

OPPORTUNITY

From its inception, Macrocapitales identified the service sector as one that combines high rates of growth with broad opportunities for specialization. With recent economic growth and middle class expansion, Peruvians have experienced a significant increase in disposable income and now have access to services that were limited in the past. Likewise, there was growing demand from institutional clients, such as schools and hospitals that wanted to provide quality food services to their clients but did not have in-house capacity to offer these services.

As a family business with over 30 years in the market, Charlotte offers catering and gourmet cafeterias, currently serving more than 43 locations. The company found a market niche that was not on the radar screen of large players in this sector, such as Sodexo or Aramark, but wanted more sophisticated and personal services than could be offered by smaller local firms.

Prior to the Macrocapitales investment, Charlotte had developed long-term relationships with a wide array of clients and had a reputation for quality. However, although the company was already experiencing high levels of growth, it did not have proper technological support for such scale. Therefore one of the main tasks in the short-time period was to select and implement the right ERP that would permit such growth.

Furthermore, because of a lack of capacity to increase its clients under management, the company had been forced to turn down many potentially lucrative contracts. Macrocapitales identified the growth potential of Charlotte and understood that investments in management, together with new capacity, would leverage the company's growth. The fund manager also identified Charlotte's potential to expand regionally as well as into new segments of the food service industry.

EXECUTION

Although the company already had several capable family members prepared to enter the company in key management positions, they needed assistance with managing the transition from being a small company to a professional corporation. Macrocapitales played a fundamental role in helping to manage this transition. The fund manager was instrumental in finding and hiring a CFO with market experience, which could offer the financial support that the company needed. To work with the CFO, an accountant was brought in from a large firm to improve the financial systems in place, and a COO to reorganize the processes while developing a more efficient system and a "lean manufacturing" methodology with international standards.

Additionally, Macrocapitales helped design an approach for assessing new contracts and pricing. This new system took into consideration raw materials and labor, together with the financial structure to access debt and working capital. These actions guaranteed that new contracts were adequately priced. In line with the process, Macrocapitales helped create a committee aimed to improve efficiency in the company, which was in charge of (i) metrics for adequate food manipulation, (ii) evaluation of employees' performance, (iii) proposals of preventive and corrective measures, and (iv) supervision of application of new procedures.

Macrocapitales also helped the company to make much-needed investments in a new production facility. Because the company had grown over a period of years, its operations were located at three small plants, which did not offer state-of-the art equipment and facilities. This new plant will be inaugurated by mid-2017 and will give the company the capacity to meet growing demand for at least the next five years. It will also improve logistics, because production will be centralized in a single location.

OUTCOME

Charlotte expects to double its points of sale by 2018. The company has already added new clients, including embassies and social clubs, and plans to continue within this ambitious expansion strategy. With the new plant, it will be able to comfortably meet growing demand for several years. The company also plans to open a second facility in southern Peru as part of a regional expansion plan. In coming years, the company will likely be an acquisition target for an international company interested in entering this market in Peru. Macrocapitales expects Charlotte to be ready for sale in 2019, when it will have achieved the next two phases of its growth plan.

ESG IN FOCUS

In an effort to encourage innovation and results, Macrocapitales has created bonuses and an overall compensation policy which is goal-related. The company also offers training for both mid-level managers and factory workers to promote people from within the corporate structure, and provides loans to its employees in the event of personal and family emergency. The company signed an agreement with healthcare institutions to offer free evaluations to monitor cholesterol, glucose, and others basic health issues. The company is also finalizing its support of four non-profit organizations to help offer high-quality, low-cost food to local communities.

The company is preparing itself to obtain the Hazard Analysis Critical Control Point (HACCP) recognition from the US Food and Drug Administration (FDA). HACCP is a management system in which food safety is addressed through the analysis and control of biological, chemical, and physical hazards from raw material production, procurement and handling, to manufacturing, distribution, and consumption of the finished product.

Macrocapitales is also the first and only Peruvian private equity fund manager in signatory of the Principles of Responsible investing (PRI), one of the world's leading proponents of responsible investment. PRI signatories are required to incorporate ESG principals into their investment and ownership decisions.

DATE OF INVESTMENT APR 2012

AMOUNT US$35.5 MILLION

PARTICIPATION/STAKE 16.1%

COMPANY NAME

Bodytech

www.bodytech.com.co
www.bodytechperu.com
www.sportlife.cl

INDUSTRY / SECTOR

Fitness and Sports Health Club

LOCATIONS

Colombia, Peru, and Chile

DESCRIPTION

Founded in 1997, Bodytech is a sports medical club chain in the Andean countries of Colombia, Peru, and Chile. One of the fastest growing fitness chains in the world, the company provides clients with health and wellness services to complement its fitness offering and has a brand that is widely recognized by its over 270,000 members. Its 146 clubs offer a full range of activities from cardiovascular programs to weight training and group classes. A professional staff of doctors, nutritionists, and trainers complement the members' training regimes with medical and dietary support. Bodytech is also able to attend to a broad array of market segments through a six-tiered category segmentation.

INVESTOR PROFILE

Teka Capital, founded in 2009, is a private equity firm that focuses primarily on creating value in mid-sized companies in Colombia but also has interests in Peru and Chile. Its portfolio includes firms in the fashion, fitness, hotel, mattresses, and cosmetics industries in the region. Pension funds make up 43% of the fund's backers, followed by private investors with 39%, and sovereign wealth funds with 17%. Its first fund, TEKA I, has made five investments in seven companies. Diego Cordoba and Juan Antonio Pungiluppi are Teka Capital's founding partners, who previously worked at Valorem S.A., the Colombian holding company for the Santo Domingo family's non-brewery assets.

FUND NAME

TEKA I

FUND SIZE

US$144 million

TOTAL AUM

US$230 million

OPPORTUNITY

In 2012, Teka was invited to invest in Bodytech as a strategic partner with the aim of helping the company expand operations in Colombia, consolidate its position in Peru, and venture into Chile. Teka saw this as an ideal opportunity to take advantage of several trends across the region, including the growing interest in health and wellness, and the expansion of a strong middle class with disposable income willing to invest in their personal fitness. Despite the growing demand, health club membership has very low penetration in Colombia and Peru – about 1% – compared to roughly 5% in Brazil and 18% in the US. In Bodytech's three markets, Teka identified a demand for professional health clubs, with state-of-the-art equipment and a full range of high-quality services. Teka was attracted by the opportunity of investing in a company with a proven business model and an experienced management team. Teka also saw Bodytech as a way to capitalize on an underdeveloped sector and a growing trend toward healthier lifestyles. In Teka, Bodytech found a partner that would help it to quickly leverage growth and improve efficiencies, contributing to the long-term value of the company.

EXECUTION

When Teka made the investment, much of the company's management and growth strategy was being directed by the founder, who was also the CEO. Although he had a strong background in this field, he recognized the need for a more professional corporate structure for the company to continue to grow. Teka found that it was necessary to build a stronger management team, and specifically to bring in an executive with regional experience on the financing side. Following Teka's suggestion, a new CFO was appointed to work on the company's planning and business development. This executive also worked to improve the company's capital structure by refinancing Bodytech's debt with a new competitively priced syndicated loan, which helped to finance both organic growth and acquisitions. With Teka's backing and management advice, Bodytech entered into the Chilean market via the acquisition of Sportlife, the country's second largest fitness chain with 39 clubs. It also acquired another 11 clubs in Colombia and Peru. Organically, it grew by opening 51 new clubs in Colombia, Peru, and Chile. The company also had additional capital to refurbish older clubs to improve customer experience and introduced new types of activities in the clubs.

Teka also helped to implement a Board of Directors and to create several committees that helped to guide the company's broader growth program. For example, a remuneration committee was introduced to create a more attractive compensation scheme for executives and improve talent retention. The financial committee developed KPIs and made them central to the decision-making process. There was also a stronger focus on budgeting. Teka brought in one of the "big four" accounting firms to guarantee the highest standards of accounting and corporate governance. A separate sales and marketing department was created, which developed programs to increase corporate clients, including large companies that are seeking to promote healthier lifestyles for their employees. The company has also developed new business lines focused on high performance athletes and medical rehabilitation, as well as sport clubs for children, both of which will give the company additional growth in the future.

OUTCOME

The partnership between Bodytech and Teka has proven to be very successful, allowing the company to achieve outstanding growth, which will be reflected in the long-term value of the company. Bodytech has tripled the number of clubs and nearly tripled the number of members since entry. It is now the second largest gym chain in Latin America and the 18th largest in the world. Today, Bodytech has over 270,000 members and 146 state-of-the-art clubs located in three countries. The company has also seen rapid regional expansion, without compromising the company's EDITDA, which nearly tripled in the following year after the investment. Bodytech is prepared to continue this growth cycle, with very strong governance, budgeting, and planning systems in place. With a strong structural foundation and projected growth levels, Bodytech should be prepared for an IPO in the next five years.

ESG IN FOCUS

Bodytech is a firm believer in the positive impact of healthy lifestyles on people's lives as well as on the broader community. This belief underscores the company's services that go beyond the traditional fitness model by offering complementary medical services, including regular medical check-ups and nutritional coaching.

The company sees its people as its most valuable asset and promotes an open and transparent workspace where employees feel motivated to contribute their best. For the past five years, the company has worked with Great Place to Work, the global authority on building and sustaining a high-trust organizational culture. The company also encourages employees to take part in ongoing training programs to further develop their skills in areas such as sales, customer services, and training techniques.

In an effort to strengthen corporate governance in the company, Teka implemented periodic executive and financial committees to help monitor the company's progress and empower talented people to work towards a better and more efficient organization. Teka, along with its board, helped establish long-term incentive plans for top management and established a compensation committee.

Bodytech also created alliances with two foundations to promote healthy lifestyles for underprivileged children, with coaches in various sports as well as nutritional and educational assistance.

DATE OF INVESTMENT MAY 2008

AMOUNT US$37.4 MILLION

PARTICIPATION/STAKE 50.22%

COMPANY NAME

Petrolatina Energy Limited (PELE)
www.petrolatinaenergy.com

INDUSTRY / SECTOR Oil & Gas

LOCATIONS Colombia (London HQ)

DESCRIPTION

Petrolatina Energy Limited, or PELE, was founded in July 2004 and is engaged in the exploration and production of oil and gas in Colombia. When Tribeca entered in May 2008, PELE was listed on the Alternative Investment Market (AIM) in London, but was later delisted in March 2012. At the time of the exit, PELE's assets included: five blocks in the Middle Magdalena Valley Basin, two blocks in the Putumayo Basin, and three in the Eastern Llanos Basin. The company is headquartered in London and holds a 100% stake in its subsidiary Petroleos del Norte in Colombia.

INVESTOR PROFILE

Tribeca Asset Management is a Colombian private equity fund with investments in business areas with demonstrated growth potential. Tribeca invests in a broad range of sectors, including healthcare, consumer energy, media, and industry. The fund typically invests in companies that have a proven track record and a strong management team, but need capital to quickly leverage growth. Tribeca invests primarily in Colombia, which has experienced rapid growth in recent years and has a large number of companies in need of growth capital.

FUND NAME Tribeca Fund I

FUND SIZE US$131.5 million

TOTAL AUM US$430.8 million

OPPORTUNITY

Tribeca was looking for opportunities in Colombia's oil sector in an effort to take advantage of the regulatory changes that took place in 2003, when the government opened up the sector to facilitate more private investment. Tribeca identified PELE, a junior oil and gas company in Colombia with good operating standards, low lifting cost, operating permits, and excellent relationships with government institutions, as an ideal vehicle to capitalize on these trends. PELE was an early entrant into the industry, and by 2008, its production was 250 barrels per day with proven (1P) reserves of 2.8 million barrels of oil not yet in production. The company also had an exploration portfolio in high potential areas. Operations were concentrated in the Middle Magdalena Valley Basin, an area known for extensive oil fields and safe operating conditions, which also had low transportation costs for its oil production. The company also owned the Rio Zulia-Ayacucho pipeline, a strategic asset for oil transportation given that the pipeline is the only way out of the Catatumbo Basin. Tribeca had ties with company management and was attracted to the investment because it already had positive cashflows, high-potential blocks, and a very strong technical staff with knowledge of the basin.

EXECUTION

Following the investment, Tribeca did a diagnostic of the company's top and middle management to assess its strengths and weaknesses. Although the company had a strong management team, Tribeca identified the need for a COO. With Tribeca's help, PELE filled this position with a former executive from BP who had experience in Colombia. The company also brought in a human resources director to think about a long-term strategy for existing staff and for future hires. Tribeca also appointed a CFO, which played an instrumental role in reducing costs, debt refinancing, reinvesting cash flows in growth opportunities, and sourcing follow-on investments. In 2012, under Tribeca's leadership, the company sold the Rio Zulia-Ayacucho oil pipeline for US$11 million. The company received a cash payment of US$4 million and structured a 5% increase in ownership in two blocks to 95%, with the remaining capital. This freed up additional capital to acquire four additional exploration blocks. The following year, PELE farmed out a 70% interest in the unconventional potential of La Paloma and Midas blocks to Source Energy. As a result, the company acquired Omega's interest in Midas and La Paloma, achieving a 100% stake in both blocks.

OUTCOME

From the time of Tribeca's entry to the time of the exit, PELE saw a 23-fold increase in its net production, reduced its lifting cost by 33%, increased its revenues 10.6 times, and raised its 2P reserves 12.6 times from 5.1 million barrels of oil equivalent in 2008 to 64.1 million barrels of oil equivalent in 2015. Tribeca was always very cost conscious, even during the period of peak oil prices and remained focused on keeping its structure lean. Nevertheless, the decline in oil prices during the second half of 2014 and the first half of 2015 led to critical challenges for the company. In 2015, PELE produced 90% more barrels than in 2014 but its revenue fell 1%. To guarantee the profitability of the barrels sold, the company had to implement an aggressive optimization process to achieve operational efficiencies and reduce overall costs. From 2014 to 2015, the company's lifting costs were reduced from US$13.8/barrel to US$4.3/barrel (-69%), which helped it remain competitive during the crisis. Despite the more than 60% fall in oil prices during this period, the company's overall EBITDA only fell 27%. Although discussions were in place to sell the company in 2014, Tribeca had to wait until 2015's second half, when there was a general market perception that the oil prices had stabilized to begin a new sale process. Ultimately, Tribeca sold the company to Gran Tierra Energy in 2016, achieving a MOIC of 6.2 times and an IRR of 26%.

ESG IN FOCUS

PELE is located in Colombia's rural Magdalena Valley, which although not one of the poorest regions of the country, does have a large population that lives in poverty. When Tribeca made the investment, it identified the need to improve relations with local communities, and created an executive-level position focused only on community outreach. This executive was responsible for everything from building schools in the region to creating training programs.

The company aims to meet all its demand for non-technical jobs by hiring members of the local community. Likewise, it aims to prioritizes the purchase of local goods and services. Training programs targeting female-headed households were created, which have had a significant impact on increasing employment in this demographic.

PELE created the program "Finding Leaders – Generating Development" to promote development through the creation of projects that would satisfy unmet need in the community while generating cash-flow to guarantee a long-term sustainable development with or without the company's presence.

ABOUT LAVCA

The Latin American Private Equity & Venture Capital Association (LAVCA) is a not-for-profit membership organization dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of US$60b, directed at capitalizing and growing Latin American businesses. LAVCA's mission is accomplished through programs of research, networking forums, investor education seminars, and advocacy of sound public policy.

LAVCA PRODUCTS

LAVCA Industry Data and Analysis
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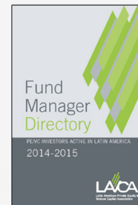
The Latin American Investor Network, is the only comprehensive online database of Latin America private equity and venture capital fund managers. System updates are made ongoing.

LAVCA LP Survey
The first comprehensive survey of Latin American PE of its kind, providing a unique perspective of the issues and opportunities facing private equity investors in the region.

The Latin America PE VC Report
The Latin America PE VC Report is the official newsletter of the Latin American Venture Capital Association.

The LatAm Venture Bulletin
A bi-weekly newsletter, produced specifically for venture investors, entrepreneurs, and technology startups in the early stage ecosystem, with breaking deals, investor perspectives, research, and curated news from the Latin American venture community.

LAVCA Scorecard
Produced in collaboration with the EIU the LAVCA Scorecard ranks 12 countries based on 13 indicators.



The LAVCA Fund Manager Directory
The LAVCA Fund Manager Directory catalogs private equity and venture capital managers active in Latin America. Profiles detail investment strategies; AUM; preferred stages, sectors, and geographies; addresses; and key contacts.

The Latin American PE Deal Book & ESG Cases
The Latin American Private Equity Deal Book & ESG Cases is a 27 page report profiling 13 investments from leading private equity players in Latin America. Cases include information about deal execution, investment strategy, ESG, and IRR.

Directory of Latin American Pension Funds & Overview and Analysis of Key Markets
The Directory of Latin American Pension Funds includes an overview and analysis of the key markets, directory of regulatory agencies, and profiles with key contacts at the top pension funds in each country. Profiles also include each pension's asset mix.

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