

# LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



Rancho Los Molinos

DATE OF INVESTMENT **NOVEMBER 2017**

AMOUNT **UNDISCLOSED**

PARTICIPATION STAKE **32%**

PC CAPITAL

## COMPANY NAME

Distribuidora Rancho Los Molinos

**INDUSTRY/SECTOR** Agribusiness / Retail seeds

**LOCATION(S)** Mexico

## DESCRIPTION

*Rancho Los Molinos is a Mexican sealed seeds producer based in Central Mexico. Its product portfolio includes more than 180 seed varieties sold through two proprietary brands, along with gardening tools, pots, soil, and fertilizers. The company has a network of more than 2,750 points of sale; including the largest retail chains and specialized gardening stores in Mexico.*

## INVESTOR PROFILE

*PC Capital is a private equity investment firm based in Mexico City. PC Capital's investment thesis is sector agnostic, but with a preference for companies in the sustainability, financial services, and education sectors.*

**FUND NAME** Mexico Development Fund I

**FUND SIZE** US\$25 million

**TOTAL AUM** US\$106 million

The COVID-19 pandemic accelerated ongoing demographic trends in the Mexican home gardening sector, as more Mexican households sought sustainable sources of vegetables and fruits and explored new low-contact hobbies during confinement. Growth in the retail seeds sector in the last decade has been driven by demographic changes among buyers. While the traditional target market for home gardening has been elderly women, younger generations are increasingly becoming more interested in urban gardening to improve self-sufficiency, health, and well-being.

In this context, PC Capital identified Rancho Los Molinos as an attractive investment opportunity for the firm's debut fund. In addition to a growth trajectory driven by an increasing consumer base, the company also aligned with PC Capital's focus on sustainability and social impact. From an environmental perspective, household gardens contribute to climate change mitigation targets through the reduction of both food losses in the supply chain and greenhouse gas emissions associated with the transportation of fruits and vegetables to end consumers.

## OPPORTUNITY

Rancho Los Molinos specializes in the development, packing, and distribution of bulk and hermetically sealed seeds, as well as products for home gardening such as organic fertilizer, gardening tools, pots, and soil. The company's specialty is small packets of vegetable, fruit, and flower seeds sold directly to consumers through multiple retail channels (e.g., supermarkets, e-commerce sites, or specialized gardening stores), mainly for non-commercial use.

At the time of PC Capital's investment in 2017, Rancho Los Molinos was the market leader in the home gardening segment in Mexico, with approximately 40% of the market share. After two decades leading the company through organic growth, company founder and CEO Peter Muehlen sought an external partner to fuel the company's expansion and institutionalize operations in preparation for his retirement.

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## EXECUTION

PC Capital acquired a 30% stake in Rancho Los Molinos in November 2017 for an undisclosed amount. With assistance from PC Capital, the company improved its governance structure through the creation of a Board of Directors and Operating Committees. In addition, a leadership succession plan was instituted, and a new CEO with over 11 years in the seeds industry was hired in mid-2020.

Rancho Los Molinos increased its workforce by 38%—from 58 employees in 2017 to 80 in 2020—to support the company’s rapid expansion. The company now sells its products through a network of more than 2,750 points of sale, including the largest specialized gardening stores and retail chains in Mexico, such as Walmart, Home Depot, and Chedraui. Since 2017, the company has sold over eight million seeds packets containing approximately two billion fruit, vegetable, and flower seeds.

In addition, the company also established performance measurement controls geared towards long-term growth, including an expansion in the number of points of sale, increased presence in retailers, and maximization of EBITDA and cash flow. Since PC Capital’s investment, Rancho Los Molinos saw a CAGR of 30% and EBITDA increased 2.22x. Annual revenue grew steadily at 12% in 2018 and 2019, followed by 49% revenue growth in 2020 buoyed by increasing demand due to COVID-19.

Rancho Los Molinos also repurchased a minority equity stake from an independent family in November 2019, further simplifying the company’s capital structure and increasing PC Capital’s stake to 32%.

## COMMUNITY IMPACT AND JOB CREATION

Based on figures published by the National Mexican Institute of Statistic and Geographic Information, Rancho Los Molinos accounts for over 3% of the economic activity in Tepoztlán, a small town of over 40,000 inhabitants bordering Mexico City. The company is responsible for the direct income of 80 families, and its raw materials are sourced locally from 22 different suppliers. With support from PC Capital, the company modified its compensation structure to increase alignment towards long-term goals and improve the quality of life of its employees. Average annual employee wages have grown 53% since 2017 through a combination of payroll increases, profit sharing agreements, and bonuses. Furthermore, the company also prioritizes an equal gender ratio among its employees, with women currently making up 53% of the workforce.

