

# LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



DATE OF INVESTMENT **May 2019**

AMOUNT **Undisclosed**

PARTICIPATION STAKE **35%**



## COMPANY NAME

Alquería

<https://www.Alquería.com.co/>

**INDUSTRY/SECTOR** Agribusiness / Dairy

**LOCATION(S)** Colombia

## DESCRIPTION

Alquería is a Colombian food company that specializes in dairy products and beverages. Founded by Dr. Jorge Cavelier in 1959, Alquería was the first company in Colombia to process raw milk using ultra-high-temperature techniques. Now owned by Carlos Enrique Cavelier (third-generation owner) and Mesoamerica, the company produces approximately one million liters of milk per day across six dairy facilities.

## INVESTOR PROFILE

Mesoamerica is a leading Latin American investment firm. For over 25 years, Mesoamerica has contributed to the region's development by investing and managing companies and projects that have enabled the transformation of the region's productive systems. Mesoamerica's investment approach focuses on identifying high-impact platforms and providing leaders with growth capital, strategic knowledge and governance to transform the region.

**FUND NAME** Mesoamerica Opportunities LatAm

**FUND SIZE** USD285 million

**TOTAL AUM** USD335 million

Alquería is one of the largest dairy companies in Colombia, with annual sales surpassing USD300m and a distribution network exceeding 170,000 points of sale. Although Alquería was on the brink of bankruptcy in the early 2000s, today the company is a market leader in the Colombian milk industry as a result of its focus on technological innovation and social and environmental initiatives. Alquería supports its stakeholders by providing technical assistance to farmers, supporting educational programs to underserved communities, donating to national food banks and implementing initiatives to reduce the company's environmental footprint.

## OPPORTUNITY

Colombia's dairy sector is highly concentrated. Although it is comprised of more than 320,000 raw milk producers, only four large industrial milk processors — Alpina, Alquería, Colanta and Nestlé — purchase more than half of the country's production. Raw milk prices are regulated by Colombian authorities to guarantee a minimum income for small producers, as the sector remains an important source of rural employment, accounting for 0.6% of Colombia's total GDP and over 700,000 direct jobs.

In recent years, raw milk prices have increased disproportionately relative to inflation rates, exerting pressure on the profit margins of industrial milk processors. As profits stalled, Carlos Enrique Cavelier saw an opportunity to pivot the company's strategy to focus on value-added dairy products like yogurt and cheese. In 2019, Cavelier sought an external partner to support the company's new vision, reduce debt and expand the company's approach to value creation through community development. Alquería received offers from several strategic bidders, but ultimately chose to partner with Mesoamerica, as the fund manager shared Cavelier's purpose-driven investment thesis and brought valuable strategic knowledge and governance practices.

## EXECUTION

Mesoamerica acquired a 35% stake in Alquería in May 2019, which included the acquisition of a minority stake from IFC. Since then, Alquería and Mesoamerica have established a "partnership with purpose" — one that boosts profitability while also improving the quality of life for all stakeholders.

To grow its core dairy business, Alquería is leveraging its extensive brand recognition and distribution network to diversify its product portfolio, including strategic acquisitions that would add value-added products. The company is also undergoing a process

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of vertical integration, which includes the expansion of in-house raw milk production and non-core businesses (e.g., packaging) to lower operational expenses.

With support from Mesoamerica, Alquería created a plan with clear objectives, strategies and metrics to drive the company's transformation in the next five years. A board of directors was established with participation from independent professionals, including seasoned dairy executives and industry leaders in digital transformation. Rafael Alvarez, an executive with extensive experience in the beverages sector, was brought on board to implement the company's transformation strategy. In addition, Alquería started using GRI standards in 2019 and is in the process of being certified as a B Corporation.

## ESG IN FOCUS

Over 3,000 raw milk suppliers benefit from the "Vaca Madrina" program, which teaches farmers how to increase milk production efficiency through sustainable farming and technological innovation. This initiative also provides working capital financing and grants farmers future purchase contracts that contribute to their financial stability. Alquería aims to source 100% of its raw milk from sustainable farms by 2022, and the company has already invested over USD2.8m in teaching farmers sustainable practices. The Vaca Madrina initiative aims to increase the average income of Alquería's supplier farmers fivefold by 2025.

In 2010, Alquería launched the Alquería Cavelier Foundation to improve educational outcomes in underserved communities in the Cundinamarca region, where the company is headquartered. The foundation provides scholarships for private schools and universities, supports educational programs for the children of Alquería's collaborators and provides technical assistance to public schools. The program has benefited over 31 schools, 1,700 teachers and 40,000 students across five municipalities.

On the environmental front, Alquería created the "Planeta Larga Vida" program to reduce its environmental footprint through initiatives across four areas: water, energy, circular economy and sustainable farming. Since 2018, Alquería reduced its water consumption by 7.5%, saving 98 million liters of water. In addition, the company reduced its use of plastics in packaging by 18%, preventing 790 tons of plastic from polluting the environment and decreasing greenhouse gas emissions by 60%. The company also launched the first three carbon-neutral dairy products in Colombia and signed a zero-deforestation agreement, pledging to restore 15,000 hectares of forests by 2030.

## RESPONSE TO COVID-19

Alquería supports 15 food banks in Colombia, having donated over 24 million liters of milk worth more than USD10m since 2007. Since the pandemic began, Alquería has increased its commitment to those in need and donated over 10 million glasses of milk to two million Colombian families. The company is also donating food products through the Colombia Takes Care of Colombia ("Colombia Cuida Colombia") initiative, reaching an additional 500,000 families. Alquería also assists small business owners through tiendacerca.co, a joint initiative with Bavaria Group to connect consumers with over 45,000 traditional neighborhood stores. Through tiendacerca.co, Alquería has donated 1,500 delivery bags to mom-and-pop stores to enable them to offer delivery services during the pandemic.

