

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



DATE OF INVESTMENT **November 2018**

AMOUNT **BRL74m**

PARTICIPATION STAKE **63.0%**



COMPANY NAME

Biotrop

<https://biotrop.com/>

INDUSTRY/SECTOR Agribusiness

LOCATION(S) Brazil

DESCRIPTION

Biotrop is a Brazilian company focused on the production and development of high-tech biological agricultural products. The company aims to transform agribusiness by innovating with biologicals inoculants, biostimulants and biopesticides to produce healthy foods

INVESTOR PROFILE

Aqua Capital is an independent private equity firm focused on innovative and sustainable companies throughout the agribusiness and food value chain. Aqua Capital invests in both buyouts and growth companies across the Americas. Since inception, Aqua Capital has invested in over 40 companies grouped in platforms.

FUND NAME Aqua Capital Fund II

FUND SIZE USD370m

TOTAL AUM USD1b

Aqua Capital created agricultural biologicals platform Biotrop in 2018 and shortly thereafter merged it with inoculants¹ producer Total Biotecnologia. Since Aqua's investment, the platform's EBITDA has grown at a CAGR of 51.2%, international sales have increased 4x, and the company has launched 24 new products. Biotrop's products now cover approximately 10 million hectares that will not be polluted with harmful and unsustainable chemicals. In three years, the company has reduced the use of chemical fertilizers by over 23,000 tons, which represents a reduction of at least 83,100 tons in CO₂ emissions – the equivalent of planting 581,000 trees.

OPPORTUNITY

Agricultural biologicals are used to replace chemicals in farming, primarily to enhance grower productivity and protect crops from pests. The global market for biologicals is projected to grow at a CAGR of 13.7% and reach USD24.6b by 2027, driven by rising food security concerns, a large shift towards sustainable agriculture, increasing consumer demand for organic food and public policies aimed at reducing the use of harmful chemicals in crop production. In Brazil, the biologicals market is expected to grow between 20-30% over the next five years, buoyed by increasing use of biological inputs on soy, sugarcane, coffee and cotton plantations.

Despite growing demand, there are not many large companies that focus exclusively on agricultural biologicals. Globally, there are fewer than 20 standalone companies with more than USD10m in revenue in the sector, as lengthy licensing processes across different jurisdictions and extensive capital requirements present high barriers to entry. In 2018, the Brazilian market was highly fragmented, mainly comprised of chemical companies and some specialized small biological firms. Aqua Capital identified an underpenetrated market with potential for growth and decided to create a Brazilian agricultural inputs platform that could be scaled to meet global demand.

EXECUTION

In 2018, Aqua Capital created Biotrop and licensed select biological technologies to be sold in Brazil. Shortly after its creation, Biotrop merged with Total Biotecnologia, a Curitiba-based company specialized in the production of inoculants. At the time, Total Biotecnologia was one of the leading inoculant producers in Brazil, with a 20% market share and significant brand positioning in the soybean and corn seeds market. Aqua's investment thesis behind the merger centered around developing a wider array of biological products, increasing international expansion and professionalizing the company's operations.

¹ Inoculants are products used to increase nitrogen fixation and nutrient absorption by plant roots during the early stages of growth.

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Since Aqua created the platform, Biotrop has increased its sales team from 27 to more than 150 employees. The company shifted its commercial focus from smaller farmers to large retailers, including other companies in Aqua's portfolio. Biotrop also launched in five new Latin American countries and is preparing its entry into the United States, resulting in a 4x increase in international sales. Biotrop has tripled in size compared to 2018, with EBITDA growing at a CAGR of 51.2% and gross revenue surpassing BRL190m in 2021.

Biotrop has also invested heavily in research and innovation. R&D expenses reached 16% of sales in 2021, compared to less than 3% in 2018. The company created a 40-hectare experimental station, invested in new equipment and methods to automate production and established a public-private partnership with the Brazilian Agricultural Research Corporation (Embrapa). As a result of these strategies, Biotrop has launched 24 new products in three years, including highly specialized biostimulants and biopesticides. Products launched in 2020 and 2021 are expected to contribute to more than 30% of total sales for 2022.

With Aqua's support, the company has professionalized its management and industrial teams through long-term value creation plans around key strategic projects. Compensation structures were also redesigned to be better aligned with the company's long-term growth plans through stock options for management and demand targets for the sales team.

In July 2021, Singapore's sovereign wealth fund GIC acquired a significant minority stake in Biotrop to accelerate the company's growth and continue its expansion into other South American markets and the United States, providing a partial exit to Aqua Capital.

ESG IN FOCUS

Biotrop's products are produced using bacteria and botanical extracts, which substitute harmful and unsustainable chemicals that are prone to pest resistance and may contaminate the soil and water, kill beneficial wildlife and insects and leave harmful residues for humans. Biotrop's biological-based solutions are estimated to cover over 10 million hectares. Since the platform was formed in 2018, it has reduced the use of chemical fertilizers by over 23,000 tons, which represents a reduction of at least 83,100 tons in CO₂ emissions – the equivalent of planting 581,000 trees. In addition, clients can reduce waste through the company's reverse logistics initiative to recycle packaging.

The company is also structuring a project around the generation of carbon credits from the greenhouse gas emissions avoided using its products. In addition, Biotrop is partnering with financial institutions to offer cheaper credits for farmers that adopt sustainable agricultural practices. These initiatives will not only cause a positive impact on the environment, but also contribute to better financial returns for farmers.

In Curitiba, Biotrop has partnered with the local government to help small farms and growers adopt sustainable agriculture through specialized training and product donations. The company is also a sponsor of the Frutos da Mata project, which promotes economic empowerment of unemployed women through sustainable farming.

