

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



DATE OF INVESTMENT July 2020

AMOUNT BRL390m

PARTICIPATION STAKE 31.7%



COMPANY NAME

Grupo Zelo

<https://grupozelo.com/>

INDUSTRY/SECTOR Consumer services

LOCATION(S) Brazil

DESCRIPTION

Grupo Zelo was founded in 2017 through the merger of two traditional funeral homes in Belo Horizonte. Since then, the company has made close to 50 acquisitions in the funeral and cemetery services industry. It currently serves over four million Brazilian customers with a presence in 200 cities and over 2,000 municipalities.

INVESTOR PROFILE

Operating in the market since 2008, Crescera Capital is an independent private equity and venture capital manager in Brazil. The senior investment team has been working together for over twelve years. Crescera is structured as a partnership, emphasizing talent retention, meritocracy and ethical practices.

FUND NAMES Crescera Growth IV, Growth V, Co-Investment III

FUND SIZE USD696m¹

TOTAL AUM USD1.2b

Grupo Zelo's basic funeral plans can be purchased starting at BRL40 per month and cover up to 14 dependents, relatives or not, providing an affordable option for lower-income families that have been traditionally priced out of private death care services in Brazil. Since Crescera's investment, the company has completed over 27 acquisitions and grown from 230,000 to over 600,000 active funeral plans covering 4.2 million Brazilians. The company employs over 4,300 people and has launched a digital learning program for employees on subjects ranging from technical skills to ESG-related topics.

OPPORTUNITY

Since the 1891 constitution was established, funeral services in Brazil have been the responsibility of individual municipalities. Despite this constitutional mandate, the private sector has driven the development of the domestic death care industry, as services provided by municipalities have often been insufficient. Most municipalities have chosen to focus on the regulation of funeral services and, in limited instances, the provision of subsidies for related expenses.

The death care sector in Brazil is highly fragmented, being mostly comprised of small family-owned businesses. There are 5,570 municipalities and over 11,700 registered funeral companies in the country, but no single company has over 5% of market share. Nonetheless, the sector has experienced a revenue growth rate of close to 30% since 2011. Contrary to popular belief, revenue growth has not been tied to a rising number of deaths in the country. Instead, growth has been driven by an ageing population acquiring more pre-paid funeral plans and by shifting social trends resulting in demand for additional services (e.g., transportation, cremation, ceremonies).

However, overall penetration of funeral plans amongst the population remains low and skews towards higher-income families. According to the Brazilian Association of Funeral Services, the median cost of burials reached BRL2,500 in 2021, which is equivalent to the median wage earned over 39 working days. The combination of inadequate services provided by local municipalities coupled with rising funeral expenses disproportionately affects low-income families seeking affordable and dignified memorial services.

¹ Includes aggregate commitments for the three Crescera funds with a stake in Grupo Zelo.

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE

In 2017, two of the largest funeral groups in the city of Belo Horizonte merged to create Grupo Zelo in an effort to professionalize operations and address a segment of the population that had been priced out of private funeral services. In the following years, the company continued to expand through mergers and acquisitions, rolling up 45 funeral homes by early 2020. The company reached out to Crescera Capital in 2019, realizing that an external partner was key to bringing the knowledge and capital needed to build a larger platform.

EXECUTION

In July 2020, Crescera Capital announced a BRL390m investment into Zelo to support the company's growth plans and embark on an ambitious national expansion plan. At the time of investment, Zelo already had 230,000 active funeral plans covering approximately 1.5 million Brazilians in Minas Gerais, Rio de Janeiro and Espírito Santo. Since Crescera's investment, Zelo has closed over 27 additional acquisitions to become the largest funeral service company in Brazil. The company now has over 600,000 active accounts that cover 4.2 million Brazilians across 2,000 municipalities in 12 different states and the Brasilia Federal District. Zelo offers a range of funeral plans to meet customers' financial needs, with basic plans starting at BRL40 per month for up to 14 dependents.

In addition, the company has expanded its core offering beyond funerary plans to become a vertically integrated platform that includes funeral services, cemeteries, crematories and a benefits program for Zelo's customers to access discounts from local businesses. The company also launched Zelopet, a new business vertical that includes an integrated suite of services for pets, and a B2B line for employers to offer funeral plans as part of their benefits packages.

Crescera has also implemented initiatives to improve Zelo's governance and management structure, including controls to monitor profitability and advance ESG initiatives. Zelo created a Sustainability Department and an ESG Committee in 2020. The department developed its own standard procedure to conduct ESG due diligence in each M&A operation and launched the first sustainability report in the funeral services industry in Brazil. The company now monitors the environmental impact of its operations, including greenhouse gas emissions and the quality of soil and groundwater in Zelo's cemeteries.

Zelo now employs 4,300 people, compared to 1,450 at the time of Crescera's investment. The company launched Zelo University in 2020, a digital learning program for employees to develop technical skills and disseminate standard company policies on topics such as leadership, people management, communications, organizational culture, sustainability, workforce diversity and integrity. In addition, the compensation structure was revised to foster growth opportunities tied to merit. The company also implemented an internal compliance mechanism so that employees can place anonymous complaints without fear of retaliation.

LACA