FIFTH EDITION

THE LATIN AMERICAN PRIVATE EQUITY DEAL BOOK + ESG CASES

LAVCA

The Association for Private Capital Investment in Latin America

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ABOUT LAVCA

LAVCA is the Association for Private Capital Investment in Latin America, a not-for-profit membership organization dedicated to supporting the growth of private capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 190 firms, from leading global investment firms active in the region and local fund managers to family offices, global sovereign wealth funds, corporate investors, and international pension plans. Member firms control assets in excess of US$65b, directed at capitalizing and growing Latin American businesses. LAVCA's mission – to spur regional economic growth by advancing private capital investment – is accomplished through programs of research, networking forums, education and advocacy of sound public policy.

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DATE OF INVESTMENT MARCH 2015

AMOUNT US$39.2 MILLION

PARTICIPATION/STAKE 41%

COMPANY NAME
Betterware
www.betterware.com.mx

INDUSTRY / SECTOR Consumer / Retail

LOCATION(S) Guadalajara, Mexico

DESCRIPTION
Betterware is a catalogue-based direct-to-consumer seller of home organization products. The company's product portfolio includes a large variety of household products including storage products, kitchen utensils, cookware, basic appliances and furniture. Betterware has a network of independent sales representatives that reaches more than 1.8 million households in over 800 Mexican towns and cities on a weekly basis. Betterware sources most of its products from a network of independent brokers in Asia and operates a distribution center in Guadalajara, Jalisco from where it fulfills all its orders.

INVESTOR PROFILE
ACON Investments is a middle-market private equity investment firm led by a team of professionals who have been investing for over 22 years. ACON invests across a wide range of industries in the U.S. and in Latin America. Founded in 1996, ACON has managed approximately US$5.3 billion in assets with a diverse portfolio of companies spanning over 65 investments. In Latin America, ACON has offices in Mexico City, São Paulo and Bogotá.

FUND NAME
ACON Latin America Opportunities Fund IV

FUND SIZE US$515 million

TOTAL AUM US$5.3 billion

OPPORTUNITY

ACON has a long history of investing in consumer-oriented companies in Latin America. ACON identified the potential of this segment because of rising income levels and middle-class expansion throughout the region. Through its extensive network, ACON was presented the opportunity to invest in Betterware. ACON saw the potential for the direct-to-consumer sales model in Mexico, which has a large number of small, isolated communities that have limited retail options. The country also has a young population, which is increasingly connected to the internet as smartphone penetration rises. Like other countries in the region, it has also seen a rise in per capita income. Finally, the direct-to-consumer sales model was already tested in Mexico, which is the seventh largest direct sales market in the world.

Furthermore, Betterware's sales model is ideally suited for Mexico, because of limitation in last-mile delivery, which means that e-commerce remains very underdeveloped. Instead, Betterware's salespeople deliver products, which can also help create long-lasting relationships with clients and helps create additional sales opportunities at the time of delivery. ACON saw significant potential for further expansion building on Betterware's already successful business. The company already had experienced, world-class management and an aggressive growth strategy and was looking for a partner.

Because of the specific financial needs of the company, it faced challenges in raising capital from traditional debt and private equity markets. ACON, building on their experience, were able to structure the investment in a way that was beneficial for both parties. The investment was made through a US dollar-denominated structured instrument, which provided downside protection against currency devaluation and upside through a heavy penny warrant component. This structure opened several avenues for exit, including refinancing, the sale of a minority stake or an IPO. This was important because without this flexible structure, it could have been challenging to exit the company.

EXECUTION

When ACON began discussions with Betterware, the company owned and operated four retail stores selling the same products under a separate brand. Because of ACON's experience in retail, it encouraged the company to close its retail operations to focus on its core distribution channel, allowing Betterware to target the market with the greatest potential.

Although direct sales are one of the oldest retail models, there were significant opportunities to modernize the company through technology. During ACON's ownership, Betterware went through a technological revolution which started shortly after its investment. Prior to the investment, 90% of the orders were made manually, then submitted by telephone or fax. The company developed an app, which allowed salespeople to submit orders by using smartphones or tablets, which significantly improved the quality of the process. At the time of exit, more than 90% of orders were submitted digitally.

While this reduced the order time and eased the work of salespeople, it also gave the company real-time data about which products were selling, helping it to optimize its product portfolio by expanding category depth and offering new innovative products. The company also modernized its sales tools, making the catalogue available on-line with videos, which helped the salespeople explain products, thereby boosting sales.

Since roughly 80% of Betterware's products were sourced from Asia, orders required significant lead times, which sometimes created a bottleneck for sales. It was also not unusual for the company to have quality control issues. As sales grew, these challenges were exacerbated, increasing stock-outs and quality issues. In effort to mitigate the issues during ACON's ownership, Betterware opened an office in Asia to improve lead times and the quality of its products.

OUTCOME

Betterware's network of sales representatives grew, in less than four years, from 70,000 at investment to more than 300,000 by the exit. Much of the growth in sales was through the effective use of new technologies to leverage the existing business model. Betterware saw its revenues increase by 3.8x and its EBITDA climb 4.9x in local currency terms in less than four years. These growth levels were achieved primarily by improving penetration, building a robust sales force, but also by offering technological tools to its network of sales associates. During ACON's tenure, the company also optimized its product portfolio by expanding category depth and offering new innovative products. Furthermore, ACON played a fundamental role in focusing the company on its core business of direct sales, which proved to be the company's most promising and profitable business. ACON exited the investment in December 2018.

ESG IN FOCUS

As a result of the strong growth during ACON's investment period, Betterware was able to provide flexible employment to a legion of women who were seeking to complement household incomes. The need to provide flexible employment to women is highlighted by the fact that 98% of Betterware's sales representatives are women. In less than four years, the size of the sales force increased more than fourfold. Betterware provides its sales representatives with tools and training, including free catalogues, to develop their sales efforts.

The company also provides extensive training to its sale representatives – most of whom are from the base of the income pyramid – and extends them credit at zero interest rates to fulfill their orders. Many of these salespeople – who the company sees as micro-entrepreneurs – would not have access to working capital to start their own businesses without Betterware. The company also offers attractive commission structures to contribute to the wellbeing of its salespeople.

Likewise, more than 90% of the company's regional managers are female and many of these women moved up through the company as salespeople. These managers are not only role models for the sales representatives, but also conduct meetings and events to help contribute to the success of other salespeople. In April 2018, the company created the Betterware Foundation, a new initiative aimed at providing education and development opportunities to the sales force members and their families.

LAVCA

DATE OF INVESTMENT NOV 2014

AMOUNT US$1.2 MILLION

PARTICIPATION/STAKE 7.02%

COMPANY NAME

NatGas

www.natgas.com.mx

INDUSTRY / SECTOR

Alternative Energy

LOCATION(S)

Querétaro, México

DESCRIPTION

NatGas was founded in 2012 with the goal of providing low-cost, alternative fuel to vehicles in Mexico. The company operates compressed natural gas fueling stations in central Mexico and provides low-cost vehicle conversions. Its clients receive more than 50% fuel cost savings, while significantly reducing CO_2 emissions. NatGas's main clientele includes taxicabs and city buses, which are converted to natural gas from more polluting fuels including diesel and gasoline.

INVESTOR PROFILE

Adobe Capital is an impact investment fund that invests in Latin America. It focuses on mezzanine, early stage and growth capital investments. Adobe seeks to invest in small companies based in Latin America which have a social and environmental impact. It also targets companies that deliver basic services to Mexico's low- and emerging-middle classes. It typically invests between US$500,000 and US$3 million in companies with annual sales of US$5 million on average. The fund is part of the New Ventures Group.

FUND NAME

Adobe Social Mezzanine Fund I

FUND SIZE US$20.2 million

TOTAL AUM US$45.4 million

OPPORTUNITY

Adobe's investment in NatGas is in line with its mission to offer cleaner vehicle fuel alternatives and to help generate economic savings for end-users. The company founder identified market trends both in Mexico and internationally, which indicate that natural gas can substitute other fossil fuels at a considerable price advantage for customers while offering a significant reduction in CO_2 emissions. Natural gas also produces roughly 80% less particulate matter than conventional diesel and gasoline, for example, which substantially reduces the public health impact of vehicular pollution.

One of Adobe Capital's limited partners at a large development bank introduced the fund manager to the founder of NatGas when the company was still in the very early stage. The founder of NatGas wanted the company to be a catalyst for the expansion in vehicular natural gas use in Mexico, adopting models that were taking off in urban centers across Latin America. For example, Colombia and Peru each have over 200,000 vehicles that run on vehicular natural gas. As a fuel, it is very well suited for vehicles that get intensive use in dense, urban areas, such as delivery trucks, taxis and buses.

In Mexico, the main challenge was creating a new market from scratch. This is because motorists were not interested in investing in converting their vehicles without having a place to refuel them, and filling stations were reluctant to invest in natural gas fueling capacity because there was no demand.

Adobe shared the vision with the founder of NatGas of the potential of this market, largely because natural gas was half the price of gasoline and diesel. When Adobe started its relationship with NatGas, the company was working to build the vehicular natural gas market. It started with taxi drivers' unions in Querétaro and offered union leaders free vehicle conversions. Adobe believed in the potential of this strategy, because the union leaders provided first-hand experience to other taxi drivers and explained the cost savings. The union leaders helped bring their members on board for conversion, dispelling many of the fuel reliably concerns. The company reached a breakeven threshold of 250 cabs converted to one fueling station, refueling twice a day.

EXECUTION

NatGas participated in an accelerator program at Adobe's older sister company New Ventures before the investment was made. The program helped the company institutionalize its operations and prepare to receive outside investment. Adobe then provided a mezzanine loan and helped obtain a DEG Technical Assistance grant to improve its corporate governance. The fund helped with fundraising and participated in the company's financing committee, with the closing of a subsequent US$12.5 million round from an international Private Equity Fund in the industry. Adobe Capital assisted the company in securing a GIIRS Certification impact rating, which confirmed its positive social and environmental impact. Because the company required significant capital expenditures to scale, Adobe conducted three follow-on investments during the holding period which allowed NatGas to meet its growth targets.

Adobe also played a fundamental role in developing the firm's micro-credit business. The conversion of a vehicle cost up to US$1,500, which most drivers could not afford to pay for in cash. Because the taxi drivers are self-employed and lack access to traditional lines of credit, NatGas decided to offer financing for the conversion. Together with Adobe, NatGas developed a system which allowed the taxi drivers to pay back a portion of the loan every time they refueled. Since the taxi drivers were seeing total savings of 55% in their fuel costs, the company could take 30% of that savings and use it to paydown the cost of the conversions. Under this model, the loan for the conversion was paid off by drivers in four to six months. The company had legal ownership of the cab to assure conversion was paid off, and NatGas was the only refueling option. This helped reduce credit risks while providing a value service to taxi drivers.

Adobe also helped NatGas to begin offering financing the purchase of new cars that run on natural gas. To keep financing costs down and recovery on investments up, the new cars were equipped with chips that require payment during fueling stops and do not allow the pump to function if the driver had not satisfied the necessary training and licensing requirements for operating the vehicle. Adobe played an instrumental role in convincing the Mexican government to pass legislation which would allow the installation of these chips.

OUTCOME

During the holding period, Adobe's investment in NatGas generated a 22% IRR in USD, along with measurable environmental and social impact. The investment showed that there are ample impact investment opportunities in Mexico that offer attractive financial returns. From the start of the investment to the exit, NatGas successfully went from one to five filling stations and exceeded its vehicle conversion goal of 2,200 cars in five years, converting 2,500 cars from an original 250 cabs in two years, all while reducing carbon dioxide emissions by 136 tons. In all, the number of vehicles increased more than fivefold in just over two years. At the time of the exit, the converted taxis represented more than 35% of the city of Querétaro's taxi fleet. This investment also illustrated the potential benefits of creative financing models that provide an alternative to traditional private equity or debt structures.

ESG IN FOCUS

Adobe's investment in NatGas has key environmental, social and governance elements. On the environmental side, there was a compelling case for natural gas vehicles in Mexico, because these vehicles use cleaner technology than electric vehicles. The bulk of the country's electric generation comes from highly polluting thermoelectric plants, many of which burn fuel oil, and only 5% comes from renewable sources. While the fund's investment bucks the general trend of divestment out of fossil fuel, it does so in a way that has a tangible impact, because vehicular natural gas is 40% less harmful to the environment than traditional gasoline and diesel. The company's activities reduce carbon dioxide emissions by almost half simply by substituting for traditional fossil fuels. Likewise, Mexico's natural gas is produced locally and supplied through a pipeline, which further reduces the carbon footprint for the business model.

On the social side, the company had a positive impact by raising the incomes of taxi drivers, whose main operating cost can be reduced through the use of natural gas. Because of the cost difference between natural gas and gasoline, taxi drivers saw an average cost savings rate of 59% during the fund's investment period. As the company expanded into conversion and vehicle financing, the company was able to offer people who were traditionally excluded from the traditional credit market access to financing through NatGas. These loans helped create a new class of entrepreneur that had previously been shut out of traditional credit markets.

During the holding period, Adobe Capital worked closely with NatGas to improve its corporate governance. Through its relationship with DEG, Adobe Capital helped NatGas to secure a technical assistance grant to strengthen its governance practices. These resources allowed NatGas to retain an experienced governance consultant to help the board create specialized committees and streamline decision making.

At the time of investment, NatGas had a very complex ownership structure which included many small, individual investors. This complicated governance and slowed down strategic decision making. To mitigate the issue, Adobe helped secure a technical assistance grant from one of its institutional investors to develop a new strategic business plan.

DATES OF INV AUG 2013; JUN 2015; DEC 2017

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 85.9%

COMPANY NAME

Fertiláqua

www.fertilaqua.com

INDUSTRY / SECTOR Agribusiness

LOCATION(S) Indaiatuba, São Paulo, Brazil

DESCRIPTION

Fertiláqua is a plant nutrition company that offers a broad range of technologies, including foliar fertilizers, bio-stimulants, seed treatments and soil-conditioning products. The company supplies products for more than 30 crops and was created through the merger of three companies: Aminoagro, acquired in 2013; Dimicron, acquired in 2015 and Spray Farm, acquired in 2017. Today, Fertiláqua has over 350 employees, including a salesforce of 150 agronomists and agricultural technicians. It is vertically-integrated, controlling the entire production and sales process from research and development (R&D) to manufacturing, packaging and delivery. The company has two factories, two seed laboratories, two R&D centers and one distribution center.

INVESTOR PROFILE

Aqua Capital was founded in 2009 to invest in the fast-growing agribusiness sector in South America with a primary focus on Brazil. It targets middle-market companies located outside of Brazil's large metropolitan areas in a broad range of agriculture-related sectors. It typically invests in companies with annual revenues of between US$15 million and US$300 million, many of which are family-owned and seeks to leverage growth and professionalize management. Aqua's portfolio currently comprises 13 platforms.

FUND NAME

AGF Latin America & Parallel Funds

FUND SIZE US$173 million

TOTAL AUM US$650 million

OPPORTUNITY

Aqua Capital identified specialty fertilizers as a segment that combined both high organic growth levels and significant potential for consolidation. Brazil currently has over 450 micro-nutrient companies, but fewer than a dozen of these companies have certified products and the capacity to invest in new product development. As an agricultural giant, Brazil is already a leading global fertilizer market, which has led to the consolidation of the market for commodity fertilizers, but the same concentration has not yet taken place in the specialty fertilizer market. In 2013, Aqua acquired Aminoagro, its first company in the specialty fertilizer segment. For the next two years, Aqua transitioned Aminogro from a family-owned business to a corporation in preparation to use the company as a vehicle for future acquisitions. In 2015, Aqua management identified Dimicron as a potential acquisition. Dimicron was similar to Aminoagro in size but had a different geographical focus and used different product formulations. It also had the advantage of having practically no client overlap, which increased cross-selling opportunities. Through this acquisition and the December 2017 acquisition of Spray Farm, Aqua saw the opportunity to quickly increase market share of the combined companies while taking advantage of economies of scale in this highly fragmented industry. With the Dimicron's acquisition, Fertiláqua became the third largest company in this segment in Brazil in terms of market share.

EXECUTION

Because Aminoagro and Dimicron were roughly of the same size, Aqua thought it was fundamental that the new company be managed by an outside executive, to guarantee that the merger process went smoothly. As a neutral third-party, the new CEO was well-positioned to identify the best elements of each company. During this period, he identified the most effective products through thousands of tests, and helped develop a merger strategy based on the competitive advantages of each company. This process took six months, after which Aqua began to merge the commercial areas of both companies. At this time, the sales teams were divided into five business units, which provided a regional focus to cross-sell products. The company also decided to focus on

ensuring a strong presence with large players that were growing at higher-than-market rates and that had solid financials. This was done through offering excellent services to farmers to generate demand for retailers, through offering a bundling of products packaged as a complete solution for the different stages of the plant ("The Plant Creation Program", or PCP). Thousands of field tests were implemented to achieve measurable agronomical results, while maintaining the three well-known company brands and redefining incentives to retailers and their salesforce. The PCP development was fundamental to offer unique "services" rather than stand-alone "products", avoiding commoditization. To achieve that, the company invested heavily in hiring and training its sales staff, more than tripling the size of the team. The salesforce began offering a full suite of services to farmers, which included bundling fertilizers and agrichemical products to provide solutions for the specific needs of each producer. By offering these high value-added services, the company was able to secure a strong presence with the highest quality distributors, and furthermore to increase margins and reduced credit risks.

This new strategy was only possible because the merger gave Fertiláqua the capacity to invest heavily in research and development. A key element of this strategy was the analysis of how its fertilizers interacted with the most widely used herbicides and pesticides. The development of an extensive database allowed the company's salesforce to offer the right range of products to farmers, based on their region, soil quality and crop. It has also allowed it to hone the product offering. Farmers recognized that the company's products significantly improved crop yields, which helped to create a faithful client base. As a result of research conducted by the company, it developed of a new line of soil conditioning products that significantly improved yields and was the basis for expansion into the sugar cane market segment.

OUTCOME

In a short period, Aqua Capital was able to successfully merge three companies into a unified, market leader with a strong product portfolio that differentiates the company from its competitors. The company also built a large, highly skilled, on-the-ground team of specialized, technical sales professionals with a differentiated market approach. The quality of Fertiláqua's products and sales team has significantly boosted margins compared to other micro-nutrient fertilizer companies. The merged company is now completely vertically-integrated, with operations that range from manufacturing and packaging of all finished products to delivery with an in-house logistics fleet. Fertiláqua is also the only company in Brazil that provides complete solutions for row crops, fruits, vegetables and sugarcane and is well positioned to continue to gain market share because of its strong product offering.

ESG IN FOCUS

Because ESG is an integral part of Aqua's investment, it immediately began setting goals for environmental and social initiatives. After the investment was concluded, an environmental and safety (E&S) officer was assigned to the company and met with management on a monthly basis. The first goal was to integrate the E&S programs of the two companies into a single action plan. Over the next 18 months, the company implemented an E&S management system and obtained key certifications for its three operational units and for its corporate headquarters. Specific initiatives for safety were implemented, including chemical management, which had a positive impact on accident reduction and reduce safety risk overall. The company also upgraded its production facility in Rio Grande do Sul, focusing on minimizing energy and water use. This boosted water recycling and the use of rain water. Similarly, the company installed a new boiler that lowered energy consumption. Aqua also conducted a greenhouse gas inventory that helped to reduce emissions from the industrial process. In 2018 Fertiláqua was certified as per ISO 14001 Environmental Management System standard. This is one of the first companies in Brazil to receive such certification. The company E&S management system is currently fully aligned with IFC PS1 requirements, OHSAS 18001 standard (occupational health and safety) and most of SA 8000 requirements.

From a social and governance perspective, the company focused on training and maintaining its staff. This process began by converting all sales staff from independent contractors to full-time employees with benefits. This not only offered the salesforce more job security, but it also made them more loyal to the company. The company also began monitoring the gender ratio among managers with the goal of increasing the number of female managers, which is slowly taking place. To improve the workplace environment, the company created a toll-free number managed by a third party to receive grievances from employees and formalized internal procedures for the ethics committee.

DATE OF INVESTMENT DEC 2010

AMOUNT US$11.7 MILLION

PARTICIPATION/STAKE 24.9%

COMPANY NAME

TermoemCali

INDUSTRY / SECTOR

Energy (Power Generation)

LOCATION(S)

Valle, Colombia

DESCRIPTION

TermoemCali is a combined-cycle 242MW natural gas and diesel, back-up thermoelectric plant. The plant plays a fundamental role in the diversification of Colombia's power generation mix, which is primarily hydroelectric and is subject to seasonal fluctuations that affect generation during dry periods. TermoemCali represents 4.85% of Colombia's thermal generation capacity and 1.36% of Colombia's generation capacity. The plant benefits from a "reliability premium" scheme, where the Colombian energy system pays a fixed payment for the plant to be available for dispatch when precipitation is unfavorable. The company has three main shareholders: ContourGlobal with 37.37%; state-owned Emcali with 33.29%; and Ashmore's - Fondo de Infraestructura Colombia (FIC) with 24.91%. Other minority shareholders have the remaining 4.43% interest.

INVESTOR PROFILE

Ashmore Colombia is an Andean private equity manager that invests in infrastructure related assets. It has made successful investments in power generation and distribution. It also has interests in telecommunications, social infrastructure and transportation. Ashmore Colombia is a subsidiary of Ashmore Group, an emerging markets investment manager with over twenty years of experience.

FUND NAME

Fondo de Infraestructura Ashmore Colombia

FUND SIZE

US$170 million

TOTAL AUM

US$418 million

OPPORTUNITY

Ashmore recognized the potential for investment in Colombia's electricity market. The regulator for energy and gas, CREG, is known for its investor-friendly and market-driven regulations.

TermoemCali's revenue was highly predictable because of the stable regulatory framework when acquired in 2010. The plant also benefits from the reliability fee scheme, where the Colombian energy system pays a fixed, monthly capacity payment for certain thermal power plants to be available for dispatch when hydroelectric reservoirs are depleted. Ashmore considers that there could be possible market opportunities that could increase company margins, allowing it to keep its revenues ahead of variable costs.

EXECUTION

At the time of the acquisition, TermoemCali was exiting a period of financial turbulence. Once the ownership changed, Ashmore and its partners initial focus was on improving the financial and operational structure of the company. This included investments in the plant's efficiency and water treatment. Ashmore worked to help restructuring and improving management in order to boost the standards of operations of the company.

Ashmore's greatest contribution to the company came during the 2015-16 El Niño weather phenomena, when Colombia's power generation sector faced a severe crisis caused by the lack of sufficient energy supply in the country. El Niño caused an extended drought, which depleted hydroelectric reservoirs, forcing the country – which typically uses only a small share of thermoelectric power – to significantly boost thermoelectric generation. The plant was requested to generate during 205 days non-stop and it was able to dispatch without any interruption. Regulatory changes were quickly made, and resulted in a successful action plan that avoided energy shortages, which would have had drastic consequences for the economy.

TermoemCali, with Ashmore's close support, participated in long discussions with the government to work out temporary measures that would allow all thermoelectric power plants, including TermoemCali, to operate while minimizing losses from the

complications with the initial model. Under Ashmore's guidance, TermoemCali participated in a committee of five representatives from the sector created by the government to analyze possible measures to overcome the crisis. It helped come up with measures to overcome the financial crisis in the sector, which included setting a floor and ceiling to the spot electricity market, the introduction of an additional spread to calculate liquid fuel costs, and the establishment of the reliability premium payments for three years to guarantee the repayment of debts to the financial sector. The company was also instrumental in the government campaign to promote energy savings by consumers. These factors helped the company to remain profitable and to help guarantee power supplies during a period of extended drought.

Ashmore Colombia is focused on applying best practices in its investment processes. During the initial due diligence for all investments, Ashmore includes ESG as a core item in its decision-making process. Once acquiring a stake of a company, ESG factors are permanently monitored and reports are shared with the Ashmore's limited partners. Ashmore routinely follows up on the ESG performance of the companies in its portfolio through regular company visits, support on activities, initiatives and other issues. Ashmore Colombia closely supervises its investments under the IFC Performance Standards on Environmental and Social Sustainability, the United Nations Universal Declaration of Human Rights and the International Labor Organization (ILO) Basic Terms and Conditions of Work.

OUTCOME

Ashmore's investment in TermoemCali illustrates the importance of involving the community in the company, not only through job creation, but by supporting initiatives that contribute to improving the lives of residents. Corporate social responsibility has been essential for the successful management of the company because it has created harmony between the company's operations and the surrounding resources in the community. The investment shows that it is possible to make attractive financial returns without compromising on environmental, social and governance issues.

Since starting operations in July 1999, the company has received numerous awards ranging from the NAES for safety during their operation and management of the plant, to others related to HSEQ performance, and a "Best Practices Award" from The Combined Cycle Journal for seven different projects. Also, it has no fines or lawsuits by governmental entities responsible for regulation for environmental, social or occupational safety and health.

ESG IN FOCUS

Under Ashmore's guidance, TermoemCali has made important environmental, social and governance contributions. On the environmental side, TermoemCali is a highly efficient plant that uses natural gas, which is the cleanest fossil fuel. Although the plant can generate power with diesel, 85% of the plant's energy output has historically been produced with natural gas. The plant is also significantly more efficient than its peers as it uses less fossil fuel than open cycle power plants. Additionally, NOx emissions of natural gas during 2017 were 26 mg/m^3, well below the industry standard of 120 mg/m^3. This is an important environmental contribution. TermoemCali has also invested in air-cleaning treatment, mainly for the byproducts of combustion including the steam that is produced as part of the combined cycle of the plant.

The plant has also contributed to improvements in water quality in the region surrounding the Termemcali plant. The plant is located near Cauca River, which is an important source of water to cool the engines but is one of the most contaminated rivers in the country. As part of the company's commitment to the environment, all the water used to cool the plant is returned to the river cleaner than when brought in, cooler and significantly above the legal requirements for water treatment. Similarly, TermoemCali also maintains and protects the riverbanks through a reforestation project for surrounding areas, which contributes to the reduction of erosion. The plant has adopted a "Guadua" forest in another way to return to Mother Nature as an expression of being thankful for the natural resources.

The company also remains committed to improving the lives of the residents of the neighboring communities (around one thousand people). Although many of these people are hired directly or indirectly by the company, the community remains with poor or no access to utilities. TermoemCali, through the AHIMSA Foundation, offers programs that generate income and improve the lives of community members. The foundation focuses on the children in the community, providing food in the local school classrooms to motivate children to attend classes. AHIMSA, under a social responsibility agreement, receives periodical donations from TermoemCali which cover the costs for twenty employees, making the company the main sponsor of the foundation. To secure the community with drinking water, TermoemCali donates and delivers drinking water to the community on a weekly basis, and it also helps sponsor periodic doctors' visits to the town.

TermoemCali and AHIMSA also help residents find ways to generate income, as for example, residents used the residual high-quality woods from local industry to produce charcoal, which contributes to air pollution. Together with AHIMSA, residents are learning how to convert the wood into furniture, which is more profitable and less polluting. The people making the furniture are earning far better incomes than they would from charcoal production.

DATE OF INVESTMENT APR 2017

AMOUNT US$2.4 MILLION

PARTICIPATION/STAKE 64%

COMPANY NAME
Green Gold Farms

INDUSTRY / SECTOR Agribusiness

LOCATION(S) Jalisco, Mexico

DESCRIPTION
Green Gold Farms is a Mexican fruit producer with berry and avocado orchards in Jalisco state. Green Gold Farms produces berries from its 189-acre farm operating in Ciudad Guzmán and has roughly $6.5 million in annual revenues. The first avocado harvest from its orchards is expected in 2019. Green Gold Farm's main export market is the US, which is the largest consumer of berries in the world. The company has a natural competitive advantage because of the climate and soil of the Jalisco region.

INVESTOR PROFILE
Gerbera Capital Venture has more than 20 years' experience investing in small- and medium-sized companies in Mexico. Gerbera started off as a family office but identified the lack of venture capital funding opportunities for entrepreneurs in Mexico, so decided to enter this segment. Gerbera invests across all sectors, but primarily targets companies that benefit from so-called mega-trends, which involve disruptions in consumption or behavior. Gerbera has a very hands-on approach to management and develops close working relationships with its portfolio companies.

FUND NAME
Gerbera Capital Venture Equity Fund II

FUND SIZE US$20 million

TOTAL AUM US$85 million

OPPORTUNITY

Gerbera's investment in Green Gold Farms is in line with its strategy of targeting significant changes in consumption patterns. Green Gold Farms, which was founded by two entrepreneurs with extensive experience in the fruit market, identified the growing demand among US consumers to have fresh fruit and vegetables available year-round, regardless of the local growing season. This has prompted buyers from the US to increasingly look to other regions of the world to supply their growing demand for fresh foods. This trend has been particularly apparent in the berry market, where global production and distribution has seen rapid changes. Gerbera Capital met the founding partners of Green Gold Farms when the company was still in the business-plan stage and was immediately impressed with the quality of the entrepreneurs and their vision for the company. Likewise, the founders of the company recognized that Gerbera Capital could offer more than just capital, but also its management knowhow to help the company to grow and succeed. Gerbera also identified the competitive advantages that Mexico has as a fruit supplier because of its favorable climate and fertile soil.

EXECUTION

Because Green Gold Farms already had a very solid business plan, the company was able to quickly transform this into an action plan immediately after closing. During this period, Green Gold benefitted from Gerbera's team of in-house consultants, which includes specialists in human resources, information technology as well as legal and accounting experts. The entrepreneurs recognized that they could benefit from these resources and from the experience of the fund's managers. With Gerbera's help, the company hired a CFO, signed leases for agricultural land and obtained financing at competitive rates for agricultural machinery.

During this period, the company reached an agreement with one of the largest US berry producers and suppliers to produce berries for export to the US. The US company provided the seeds for production as well as a market for the Green Gold's berry output. This contract significantly mitigated the risks for the startup's berry production. The company also hired top-notch agronomists to work with the founding partners. This was essential because the company needed to carefully map its planting strategy to guarantee supply throughout the periods of peak demand.

OUTCOME

In just 18 months, Green Gold Farms has gone from being an idea to becoming a profitable company with US$6.5 million in annual revenues. The company was able to post a profit from its first crop cycle and is preparing its next expansion phase in its berry business. The company also is preparing for its first avocado harvest, which will further diversify the company's revenues streams. The company provides work to hundreds of Mexican families. Since Gerbera made its investment, Green Gold has grown from having just two employees to having a staff of 550 workers.

Green Gold Farms also has a solid reputation with suppliers, who are eager for the company to continue to ramp up production. Despite NAFTA-related uncertainty, the company has been able to benefit from increased demand from international suppliers, especially in light of recent labor shortages in the agriculture sector in the US. Longer term, both Green Gold and Gerbera believe that trans-border synergies and the strong trade relationship between Mexico and the US will strengthen the company, while providing jobs in Mexico and a top quality product to consumers in the US.

ESG IN FOCUS

Green Gold Farms was founded with an understanding that it needed to provide the best quality product while respecting both the environment and its workers. From day one, its goal has been to produce high quality fruit while preserving natural resources. On the environmental side, the company seeks to have the smallest impact possible and 40% of its fertilizers and pesticides are "biorational" technology, which cause no harm to humans or animals. The company also uses soil rotation techniques to limit the need for agrichemicals. Additionally, the company adopted drip irrigation, curbing both water and energy use, as well as a production system that captures rain water. The company has adopted organic fertilizers to improve and maintain soil quality.

Green Gold Farms is committed to improving the lives of every person involved in its operations and their communities. In the 18 months since the company was founded, it has obtained two certifications, including GLOBALG.A.P., which is not only focused on food safety but also in certifying labor conditions. This gives the company's consumers and retailers the reassurance that food has been produced sustainably, respecting the health, safety and welfare of workers as well as the environment and animal welfare issues.

Green Gold Farms exceeds the basic labor requirements for workers in Mexico, which are still very basic. The company provides above-market wages, as well as housing, health care and child care for the workers. This is particularly important because of the positive impact this has on the lives of the company's female workers, who make up roughly 50% of the company's work force. The company also believes the involvement in the communities where it operates is fundamental for its success and that working hand in hand with local communities helps to strengthen the business.

DATE OF INVESTMENT JUL 2017

AMOUNT BRL 410 MILLION

PARTICIPATION/STAKE 85.15%

COMPANY NAME

Iguá Saneamento

www.iguasa.com.br

INDUSTRY / SECTOR Water and Sewage Treatment

LOCATION(S) Brazil

DESCRIPTION

Iguá Saneamento is a water and sanitation company that has 14 concessions and four public private partnerships located in the Brazilian states of São Paulo, Mato Grosso, Paraná, Santa Catarina and Alagoas. The company, previously known as CAB Ambiental, provides water and sewage services directly or indirectly to over 6.6 million people. The company supplies over 76 million m³/year of water and treats over 43 million m³/year of sewage.

INVESTOR PROFILE

IG4 was founded in 2016 by a group of executives with extensive experience in infrastructure investments in Brazil. It targets opportunities in which creditors are seeking an investor with a strategy to restructure and strengthen good companies with solid assets. Its partners have experience in capital restructurings and are committed to the promotion of strong governance. IG4 aims to generate measurable social and environmental impact as well as strong financial returns. Its founders believe that investment fund managers will only be successful long term if they support sustainable businesses.

FUND NAME

FIP IGUA

FUND SIZE BRL 536 million

TOTAL AUM BRL 1.1 billion

OPPORTUNITY

The partners of IG4 Capital had a longstanding relationship with Iguá Saneamento that predates the founding of IG4 Capital. The partners in the firm recognized the quality of the company, then known as Cab Ambiental, but were also familiar with the company's challenges. IG4's founding partners had identified the potential of the basic sanitation sector in Brazil, largely because of the considerable need for new investment and new laws that create opportunities for the private sector to bid on concessions to provide water and sanitation services for municipal governments. But financial and technical constraints have made it difficult for many municipal governments to implement these programs, creating space for private companies to enter the sector. IG4 saw Iguá as an excellent vehicle into this segment. The company's previous controlling shareholder had compliance and governance issues because of its involvement in the "Car Wash" (Lava Jato) corruption investigation. As a result, all credit lines to the company were cut. Although there were no specific corruption allegations at Iguá Saneamento, charges against the company's controlling shareholder forced it to suspend all investments, putting it at risk. The government of Cuiabá, the capital city of Mato Grosso, had intervened in its main concession, alleging that the company was not meeting its investment obligations under the contract. The company was also deeply indebted and unable to make debt servicing payments. IG4 saw the opportunity to restructure the company in a partnership with the main creditors and to bring operational efficiency to the company.

EXECUTION

As part of the acquisition, Iguá underwent a complex financial and shareholder restructuring process spearheaded by IG4 Capital. This started with a deleveraging process, which required IG4 to work closely with financial institutions and development agencies in Brazil to covert BRL 235 million of debt into equity. IG4 also renegotiated BRL 1.3 billion in other debt, obtaining a 96% long term maturity up from 40% previously. As a result, Iguá slashed its net debt to EBITDA ratio and markedly improved the relationship with its creditors. The company also went through an extensive process to regain market confidence, which resulted in the improvement of the company's corporate rating. Likewise, before the sale could be concluded, IG4 negotiated with 18 government agencies to

guarantee that the company could retain its concessions. These negotiations were complex, but eventually IG4 was able to take over management of the company and to maintain all 18 contracts.

Once IG4 took over, it appointed an entirely new management team including a new CEO, CFO, COO and compliance and regulatory director. It then began implementing a 100-day plan aimed at transforming the company. Management identified a series of short-term initiatives to improve the company and was able to execute on nearly 40 of these measures within six months of taking over the company. These initiatives resulted in important gains in revenue generation and helped the company to rebuild its tattered reputation. The company also hired CH2M, a reputable international engineering firm, to redesign that company's main projects. With the help of CH2M, the company's main infrastructure project, which was scheduled to take two years to finish, was delivered 16 months early and under cost.

OUTCOME

In a period of less than 18 months, IG4 was able to completely turnaround Iguá. In the third quarter of 2018, the company saw a 37% year-on-year increase in its net revenues and an 28.5% year-on-year jump in EDITDA. This was achieved while increasing investment by nearly 300% year-on-year and slashing the company's debt. The company also finalized a BRL 400 million investment from Alberta Investment Management Corporation (AIMco), one of the largest Canadian investment funds, on 31 October, 2018. The capital will be used to help Iguá continue to meet all the future contractual obligations of its concession agreements and will also allow it to selectively seek new opportunities in the basic sanitation sector, allowing it to expand via new concession contracts or through acquisitions. The AIMco investment underscores the improvements in Iguá's corporate governance and the overall quality of the company, which is now poised to continue to provide clean water to local populations.

ESG IN FOCUS

Because of the company's background, IG4 saw improvements in corporate governance as paramount to improving Iguá's operations. This process started with the replacement of all the c-level executives with executives from IG4's trusted professional network. The new management focused intensely on risk management and compliance. IG4 formed a new board of directors with five members, three of whom were appointed by FIP IGUA, one appointed by BNDESPar, the equity arm of the Brazilian national development bank and one independent member. To improve governance practices and broaden discussion of these issues, Iguá created an audit committee and a sustainability committee, both with independent members which meet monthly. IG4 hired two reputable law firms – one local and one international – to create a robust compliance program focused on Brazilian anti-corruption legislation and the FCPA & UK Bribery Act. IG4 also hired an outside consultant to focus on issues such as environmental licenses and to develop action plans with the contexts of a broader E&S program.

The company also focused on reducing energy costs, which account for roughly 30% of operating expenditures for water and sanitation companies. This involved investing in solar panels as well as other energy efficiency programs. The company has also seen a significant decrease in water loss through investments in pipe repair and replacement. Similarly, the company has strengthened its campaign to combat illegal waste disposal, which damages the environment and contaminates the watershed.

As part of this process, IG4 created the Iguá Institute, a non-profit agency. The Institute focuses on education and introducing the concept of water preservation to school children. This helps instill an understanding among children of the value of water and to see it as a finite resource. By educating children in the community, Iguá has been able to strengthen its ties with residents. The Institute also helps educate communities about sustainability and the positive social and public health impact of improved sewage treatment.

DATE OF INVESTMENT OCT 2015

AMOUNT US$48 MILLION

STAKE 50% (MINUS ONE SHARE)

KANDEO
HELPING COMPANIES
GROW BRILLIANT

COMPANY NAME

Acceso Corp
www.acceso.com.pe

INDUSTRY / SECTOR Financial Services

LOCATION(S) Perú

DESCRIPTION

Acceso Crediticio is a Peruvian financial services company that offers credit to the transportation sector. The company's main focus is on financing new taxis in Lima and other major Peruvian cities, but in recent years, it has expanded its portfolio to include cars, buses, trucks, and other vehicles. The foundation of its business is taxi financing, which is built on a proprietary credit scoring technology and innovative operational processes, which allows the company to lend to a segment of the population that is does not have access to credit from traditional lenders.

INVESTOR PROFILE

Kandeo was founded in 2010 by senior business professionals with considerable global experience in a wide range of sectors. The fund manager primarily targets financial services companies focused on people or small- and medium-sized businesses that have limited access to traditional banking and credit services. These industry segments include microcredit, fixed-asset financing, working-capital financing, consumer loans, home financing, retail and education. Kandeo typically seeks to make investments of between US$15 million and US$50 million. Currently, Kandeo has 13 companies in its portfolio.

FUND NAME

Kandeo Fund II

FUND SIZE US$251 million

TOTAL AUM US$377 million

OPPORTUNITY

Acceso was an ideal investment opportunity because the company is in line with Kandeo's investment thesis of backing companies that provide financial services to individuals and companies that have limited access to the traditional financial system. Acceso's core clientele – taxi drivers in Lima – has traditionally been a category of small businesses with very limited access to credit. The lack of available financing has both raised the barrier of entry for new taxi drivers and also made it difficult for those already in the industry to acquire new, more fuel-efficient vehicles. In addition to providing credit to a group of people excluded from traditional financing, Acceso's business model significantly reduced default risk through the use of automatic collections at fueling stations and remote monitoring and control of vehicles via GPS systems. This proactive collection system, coupled with the regular cashflow of taxi drivers, further reinforced Kandeo's interest in Acceso.

EXECUTION

Once Kandeo became a partner in Acceso, its primary focus was on improving the company's balance sheet. The company's business model had been based on selling the loans that were originated by the company to third parties. While the company was able to profit from the origination and administration of these loans, much of the financial margins for the credit operations were going to the purchasers of the loans. Kandeo's investment allowed the company to hold on to roughly 58% of its loans, up from 41% previously, whereby significantly boosting returns. After helping the company to find a new CFO, Kandeo helped Acceso diversify its own credit lines and improve its financing conditions. With the improvement in margins, the company began moving into new business segments, including the financing of buses and trucks. Additionally, Kandeo supported the development of a new credit scoring process, which incorporated biometric analysis. With the implementation of this new system, the expected losses for the portfolio fell to 5.6% from 6.8%.

OUTCOME

Since Kandeo became a partner in the firm, its credit lines have increased nearly fourfold to PEN 390 million, while the average cost of financing fell to 6.3% from 8.5%. These factors boosted gross margins to 35.4% from 25.8%. Likewise, the company has increased the breadth of its commercial offerings, which previously was almost exclusively limited to taxis. New products, such as consumer vehicles, buses, and trucks, among others, have helped increase annual originations from PEN 146 million to PEN 447 million, while reducing risk through increased diversification. Today, Acceso is the leading originator of vehicle loans in the country and is poised to continue to grow at high levels while maintaining margins.

ESG IN FOCUS

Kandeo's investment in Acceso had a broad range of ESG impacts. On the social side, the growth capital provided to Acceso allowed the company to expand lending to taxi drivers, lowering the barrier of entry for entrepreneurs seeking to start their own businesses. Beyond just providing loans, Kandeo also worked with Acceso to help the taxi drivers to improve their business. In 2016, Kandeo played a fundamental role in getting the company a technical assistance grant from MEDA, an international economic development organization that works closely with one of Kandeo's investors. The grant was for the development of a "Taxi Club" for the taxi drivers in Lima, who are independent, self-employed laborers, and therefore lack any benefits that are provided to employees or members of labor unions. Members of the club get discounts on fuel and vehicle maintenance, better access to auto and life insurance, assistance with vehicle registration and legal matters, as well as various educational opportunities. This program helped to create a community among the taxi drivers. In 2017, the company launched a program aimed at recognizing individuals who have had a positive impact within their community. The program selected José Antonio Halancoa, a taxi driver who stopped an attempted assault on a female passenger in October 2017 and was injured in the process. For his selfless actions, José was granted a new taxi financed through an interest-free loan from the company.

The company also participates in a paper recycling program, the proceeds from which are used to support the treatment costs for burn victims. Through the collection of over five metric tons of paper, the company's donation in 2018 was able to pay for full-body recovery treatments for five victims for a full year.

The company contributes to the reduction of air pollution in Lima by financing vehicles that operate on natural gas. Not only are these vehicles less carbon intensive than regular gasoline vehicles, but they often replace old, inefficient cars previously used by local taxi drivers. The company estimates that it has reduced carbon emissions by 106,000 metric tons. The expansion of this policy beyond taxis to buses, trucks and fleet operators has also had a positive environmental impact. By creating the opportunity for small companies to replace their aging fleets with modern technology, Acceso contributes to both a reduction in greenhouse gas emissions through improved fuel efficiencies, as well as an improvement in local air quality, since the new vehicles have much lower levels of contaminates in exhaust emissions. Finally, because natural gas is domestically produced and transported by pipeline, the carbon footprint from the distribution of the gas is significantly lower than for other fuels.

DATE OF INVESTMENT JAN 2013

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 100%

COMPANY NAME

Farmashop

www.farmashop.com.uy

INDUSTRY / SECTOR Consumer / Retail

LOCATION(S) Uruguay

DESCRIPTION

Farmashop is the leading pharmacy chain in Uruguay by revenue, profitability and number of stores. Founded in 1997, Farmashop operates 98 pharmacies and two non-pharmacy retail stores. Farmashop has a robust market position and is three times larger than its closest competitor. The company currently employs 1,457 people, of whom 74% are women.

INVESTOR PROFILE

Linzor Capital Partners is a private equity firm that invests in mid-sized companies in Spanish-speaking regions of Latin America in a broad range of sectors. Linzor was founded in 2006 by a group of three partners with extensive experience investing in the region. With offices in Chile, Argentina, Mexico, and Colombia, Linzor has a strong local presence throughout Latin America. Its expertise allows it to source, execute, monitor and support a diversified portfolio of investments. Linzor has raised over US$1.2 billion in capital commitments across three private equity funds. It has invested in a total of 20 companies.

FUND NAME

Linzor Capital Partners II L.P.

FUND SIZE US$465 million

TOTAL AUM US$550 million

OPPORTUNITY

Because of demographic trends in Latin America and the growing middle class, Linzor began actively seeking companies that provide services to this expanding class of consumers who were benefiting from rising disposable income levels. Linzor identified Farmashop as an ideal vehicle to take advantage of these trends, especially because economic growth in Uruguay had resulted in increased discretionary spending, which raised purchases of medications. Farmashop was already the largest pharmacy chain in Uruguay and had experienced high levels of growth. Linzor identified the potential to further leverage growth by strengthening Farmashop's capital structure, modernizing its operations and professionalizing its management. Furthermore, Linzor also identified Farmashop as the ideal vehicle for consolidating the sector, which still had a large number of independent pharmacies

EXECUTION

Following the acquisition, Linzor quickly began moving ahead with a consolidation process, using Farmashop to acquire smaller pharmacy chains. During this first year, Farmashop expanded from 78 to 92 locations. While the initial plan was to speed up the pace of acquisitions, this process was interrupted by a government decree issued in late 2013, which limited the size of pharmacy chains to just 15 stores (later replaced with a less restrictive cap of 10% of the market). This forced the company to suspend its acquisition plans. In the face of this challenge, the company refocused its growth strategy to target operational improvements that were part of the original business plan, although second in priority to growth via store acquisitions. This included investment in technology, logistics, systems, controls and human resources, all of which contributed to boost efficiency and to raise managerial standards. Linzor also focused on revamping and expanding existing pharmacies, which included improvements in store layout, product portfolio, and customer service. Farmashop also developed a loyalty program that has reached 20% of the population of Uruguay.

In tandem with improving the in-store experience, Farmashop also established a strong e-commerce presence through the development of its own website and the acquisition of Botiga, an online retailer targeting female shoppers, as well as a partnership with a third-party e-commerce site.

The company implemented various improvements in distribution, including automatic product reorders to optimize inventory, which boosted product availability ratios from 55% in 2013 to 93% as of September 2018. Similarly, Farmashop expanded its product portfolio, increasing non-pharmaceutical sales from 42% in January 2013 to 51% as of January 2018. Although the company continues to seek to overturn the restriction on pharmacy ownership expansion imposed by the government, it has continued to expand earnings through investments in operational improvements.

OUTCOME

Despite the changes in the sector's regulations, Farmashop has seen strong growth and significant improvements in operations. Since Linzor's investment, initiatives to increase sales by improving the shopping experience and expanding the product offerings have resulted in same store sales growth of 11% per year in local currency. It is also recognized as a great place to work, attracting many young people who see both the positive environment and opportunities for advancements. Although the company continues to strive to have the government measure overturned, Linzor and the Farmashop management team responded to the negative regulatory environment by focusing on management, which resulted in significant value creation.

ESG IN FOCUS

Since the investment, one fundamental change in Farmashop has been in human resources policies. Building on an initiative that was developed in one of Linzor's previous portfolio companies, Farmashop developed a program aimed at giving jobs to women seeking to re-enter the workforce. The program, called Mamas, Tias y Abuelas ("Mothers, Aunt and Grandmothers"), launches an annual campaign aimed at hiring women from 35 to 50 years old who are not currently employed but are looking for work. These women are given training and assigned a mentor from within the company to guarantee that the transition back to the labor force is smooth. Women from this program play a fundamental role in the company, especially because of their ability to connect with customers, offering them guidance about products. These women also work well with elderly customers who are looking for advice on products. Likewise, they are also positive role models for younger employees.

The company also strives to create a positive work environment for new mothers, who are given discounts on all baby-related products. The company has an active campaign to encourage breast feeding. All employees who have babies are loaned breast pumps and given extra time-off to nurse their children for the first year. Likewise, all stores with more than 20 employees have space reserved for breast feeding. These policies have helped women to excel in the company and roughly 80% of the company's 98 stores are currently managed by women. Similarly, more than half of the company's senior management positions, including the CFO, are occupied by women.

The company also focuses on education for its employees to allow them to advance within the company. All Farmashop employees have the opportunity to benefit from optional training courses, both online and in person. Similarly, the company pays for employees to take university courses. This program has allowed over 350 people to graduate from pharmacy school as well as MBA programs for upper management.

Farmashop also has a pilot program in several of its stores which aims to hire people with disabilities. In many of these locations, Farmashop has on-site occupational therapists to help facilitate this process.

On the environmental side, the company has started using electric bicycles for deliveries. Although this has made only a modest impact in terms of carbon emissions, the company received recognition from Uruguay's Labor Ministry and has started a trend among other companies to use electric bikes for deliveries. The company also centralized its warehousing and distribution, which has boosted the amount of recycled paper and cardboard.

DATE OF INVESTMENT JUN 2016

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE MINORITY

COMPANY NAME
Grupo Filoa
www.gruopfiloa.com

INDUSTRY / SECTOR
Consumer / Retail (Food and Beverage)

LOCATION(S)
Mexico

DESCRIPTION
Grupo Filoa is a Mexican restaurant owner and operator that offers a broad range of services in the out-of-home dining segment, including catering and cafeteria management for universities, industries and corporations. It offers both off-site and in-house food preparation, having developed a full-service food-court model with 10 proprietary brands similar to US-style shopping mall food courts. It also provides contracted catering, giving its clients a wide menu of options ranging from daily food delivery to full-scale, in-house nutritional food preparation. The company also owns two restaurants, which provide additional revenue and space for meal preparation. All menus are developed by experienced chefs to guarantee quality and nutritional value.

INVESTOR PROFILE
PC Capital was founded in 2008 by a group of professionals with vast experience in Mexican financial markets and a deep understanding of Mexico's business and social reality. PC Capital is a leading middle market investment banking firm in Mexico. The fund manager currently manages a legacy portfolio of early stage investments in several sectors including education, sustainability, SMEs, services and fitness.

FUND NAME
Mexico Development Fund I

FUND SIZE
US$25 million

TOTAL AUM
US$87 million

OPPORTUNITY

PC Capital originally met the founder of Grupo Filoa, Juan José Villareal at an Endeavour summit in Monterrey, Mexico. The partners of PC Capital immediately had good chemistry with Villareal. At that time, Grupo Filoa was growing by up to 100% per year and rapidly gaining market share in the food service industry. Food service is an industry that PC Capital had identified as a vehicle to tap into increased spending by Mexico's growing middle class. Grupo Filoa was especially well-positioned in this market because it offered an extremely high quality product at a competitive price. The company already provided its services to leading companies in Mexico City but was eager to expand into other regions and market segments. Additionally, PC Capital identified a co-investor with experience in the food service industry that was interested in backing Grupo Filoa.

EXECUTION

At the time of the investment, Grupo Filoa's main challenge was managing its growth. PC Capital immediately identified that the company had cashflow issues, largely because its clients were given 90 days to pay and they were running out of cash due to its rapid growth. This created unnecessary working capital challenges which needed to be quickly addressed. To get the company's finances in order, PC Capital helped to improve financial management through the appointment of a new CFO and a supply chain manager. The CFO immediately focused on reversing the company's negative working capital through financial factoring, credit line extensions with local banks as well as better operational controls. Once this issue was addressed, PC Capital worked with the management to map its short- and long-term growth goals. PC Capital brought in an external consultant that helped the company to hone its expansion strategy. As a result of this process, the company decided to focus its expansion on cafeteria services for industries as well as growth into new geographic regions. PC Capital also did an analysis of all of Grupo Filoa's contracts, to guarantee that they were all profitable for the firm.

OUTCOME

Because of the way that the investment was originally structured, PC Capital had a clear exit strategy from the start. The returns generated from the exit were directly linked to operational gains and management improvements. During the investment period, Grupo Filoa expanded from just two states – Mexico and Querétaro – to seven key states, including Monterrey, Guadalajara and Celaya. The number of meals served per day increased from 15,000 to 40,000. With the help of PC Capital, the company also signed key contracts which leveraged growth more quickly.

ESG IN FOCUS

PC Capital identified Grupo Filoa as a vehicle to improve the quality of life of Mexicans by offering low-cost, healthy meals. This is a particular concern because Mexico has one of the highest rates of obesity in the world. As Grupo Filoa expanded after receiving backing from PC Capital, it was able to work closely with companies and their employees to teach healthy eating habits. Grupo Filoa developed a simple, straight-forward system to help people understand the caloric content of foods available in the cafeteria to keep them from overeating. The company also offered the optional service of providing nutritionists who held private consultations with employees to help them set weight-loss goals and to teach them about healthy eating habits. Additionally, Grupo Filoa encouraged companies to hold weight-loss contests, providing incentives for employees to adopt healthy lifestyles. For many people, these initiatives represented their first exposure to nutritional education, which has a positive impact on their long-term health and well-being. For companies, it meant a healthy, happier workforce.

The fund also focused on improving the work environment in an effort to maintain staff. At the time of the investment, Grupo Filoa was experiencing extremely high employee turnover rates of nearly 100% on an annual basis. This was not only a problem for the company, because it drove up operational costs, but also indicated that employees did not see adequate room for advancement in the company. In an effort to improve employee retention, the company started a plan that focused on managers. In addition to increased training and creating promotion opportunities, the company developed a KPI system, which offered bonuses for employees who were meeting their targets. This helped significantly reduce turnover among managers, which had a trickledown effect for the retention of kitchen staff. The company also introduced incentives for employees, such as an employee-of-the-month program, which offered prizes for leading employees. In a similar vein, the company also recognized the need to increase female management. To improve the gender balance in the company, PC Capital helped hire a female human resources manager. As a result, the company now has over 50% female management. Additionally, the company actively sought to promote and attract people with disabilities to its workforce, offering opportunities to people who are often excluded from the job market.

The company also focused on guaranteeing that it was sourcing its food ingredients from high-quality suppliers in compliance with environmental and food safety codes. This had a positive impact on the environmental footprint of the company, but also helped guarantee the health of the people consuming meals produced by Grupo Filoa.

99

DATE OF INVESTMENT JAN 2017

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE LEAD MINORITY

RIVERWOOD CAPITAL

COMPANY NAME

99

www.99app.com

INDUSTRY / SECTOR IT (Transportation)

LOCATION(S) São Paulo, Brazil

DESCRIPTION

99 (formerly 99Taxis) is Brazil's leading local, ride-sharing service. The company, which is the second-largest in this market in Brazil, provides ride-hailing services using both taxis and private drivers. The company was founded in 2012 and is headquartered in São Paulo, Brazil. In January 2018, 99 was acquired by Chinese ride-hailing company DiDi Chuxing.

INVESTOR PROFILE

Riverwood Capital is a private equity firm that invests, supports, and helps to scale growing middle-market technology companies. It targets technology and technology-enabled companies, on a global basis, where the use of software, information and digital technologies can contribute to value creation. Riverwood is active in the technology sector in Latin America. Investment sizes range from US$25 million to US$130 million. Since its founding in 2008, Riverwood has secured in excess of US$2 billion aggregate capital commitments.

FUND NAME

Riverwood Capital Partners II L.P.

FUND SIZE US$1.25 billion

TOTAL AUM US$2 billion

OPPORTUNITY

With the rise of ride-sharing technology globally, Riverwood conducted a deep-dive into the industry and concluded that Brazil was an ideal market for these services. Although Brazil is a large country, roughly 75% of its population of over 200 million people live in urban areas. The country has a large taxi market generating roughly US$5 billion in revenues per year and its urban centers are densely populated. Likewise, relative to more developed countries, Brazil still has a low rate of automobile ownership and inadequate public transportation services in many large and mid-sized cities. These factors, coupled with an increasingly flexible workforce, and high smartphone penetration rates, made Brazil an ideal market for ride-hailing services.

Because of a long-standing relationship, the founders of 99 turned to Riverwood when they began seeking an investor. The founders of 99 saw Riverwood not only as an investor to provide capital, but as a partner that understood their sector and could help the company efficiently achieve its growth targets.

EXECUTION

At the time of Riverwood's investment, the leading global ride-hailing service enjoyed a strong technological and funding advantage over 99 and all other local players, resulting in its dominant market-share in Brazil. The nascent, lower priced private driver (peer-to-peer) ride-hailing category was eroding share from 99's taxi hailing base. Riverwood and the 99 team recognized the challenges that the company faced and concluded that the best response would be to bring in a strategic partner. The ideal partner would not only offer managerial support to the company but would also provide it with world-class technology. 99 and Riverwood approached DiDi Chuxing, which had developed a dominant ride-hailing business in China and successfully resisted gains by global entrants. 99 and Riverwood recognized that by bringing DiDi onboard as a co-investor, it would give 99 the technological and operational know-how it needed to compete and win against other ride-hailing services. Meanwhile DiDi gained a critical foothold into one of the world's fastest growing and lucrative ride-hailing markets, with strong local partners familiar with the region.

In the months after its strategic investment, Riverwood worked closely with the 99 executive team in crafting the terms of a pivotal

technology transfer agreement with DiDi. The agreement allowed 99 to deploy DiDi's advanced, back-end technology platforms in order to compete more effectively, while maintaining strong governance over its data and technology. Riverwood and the board also worked closely with DiDi to draft a mutual non-compete clause for the region, as well as a shareholder's agreement that would give all investors tag-along rights in the case of an exit; thereby further cementing 99's strategic value.

Riverwood provided support in the negotiation of a large investment from Softbank in July 2017, while itself participating in the follow-on round. The fresh funds gave the company the resources to expand from the taxi-only model to a model which also used private cars, dubbed 99POP. The company's original strategy was to focus on the taxi market, which was a finite group and required the company to focus its efforts on driving demand from users to an existing supply pool. But when it expanded into the private-car model, 99 needed to build a network of private drivers actively engaged on its platform. 99 worked on an aggressive plan to both recruit and retain drivers. This included compensating its drivers at a higher rate than with other ride-hailing services. The company also introduced 99Pay, a prepaid debit card to which 99 could transfer driver earnings immediately, which was an important advantage for drivers, many of whom were recently unemployed and had limited working capital. The company also adopted a policy of taking lower commissions on each ride, which significantly improved the experience for drivers, further boosting driver retention.

OUTCOME

Following Riverwood's investment, 99 quickly grew its market share and saw its volumes increase from just 2 million rides per month to 14 million rides per month in just 10 months. The services expanded to 400 new cities over the period. In nearly all cities where 99 expanded, the utilization rates grew very quickly, highlighting the strong demand for quality transportation services. The partners in the firm also worked with government regulators to get approval for app-based metering for taxis, which reduced an important barrier for the industry. With the strong growth and solid alignment amongst shareholders, Riverwood and all shareholders exited their investments with the sale of 100% of 99 to DiDi in January 2018. The transaction remains the only all-cash exit in the ride-hailing industry globally to date.

ESG IN FOCUS

Riverwood's investment in 99 took place when Brazil was still suffering from the economic downturn, which pushed unemployment into the double-digits. In this context, there was a need to provide flexible employment to people who were unable to find work. 99 performed a study and confirmed that the wages earned by its drivers were significantly above the minimum wage. The company was able to provide a sustainable employment alternative for drivers while offering customers a faster, cheaper, more comfortable transportation option, with the platform connecting 14 million passengers with 300,000 drivers. The company also implemented a robust safety system with real-time monitoring of rides, drivers and passengers. It provided on-call assistance and also allowed users to request female drivers, which made women passengers feel safer and helped avoid many of the problems other ride-hailing services have experienced.

Riverwood also played a fundamental role in increasing corporate governance initiatives at 99, including establishing compensation and audit committees and producing audited financial statements. The board also implemented corporate governance policies to align the interests of the management, workers, shareholders and community. The general partners also helped refine the employee compensation strategy.

DATE OF INVESTMENT JUN 2014

AMOUNT US$55.7 MILLION

PARTICIPATION/STAKE 60%

COMPANY NAME
SATUS AGER
www.satusager.com

INDUSTRY / SECTOR
Agribusiness

LOCATION(S)
Headquartered in Argentina with operations in Brazil, Chile & Uruguay

DESCRIPTION
Satus Ager is the largest independent seed producer in Argentina. The company provides field services for seed production, research and experimental development and industrial services for the leading global seed companies. It is the largest seed exporter from Argentina and one of the global leaders in off-season seed production for the northern hemisphere. It has processing plants in Argentina, Uruguay and Chile. In the fiscal year ended June 2018, the company reported sales of US$84.5 million and EBITDA of US$21.8 million.

INVESTOR PROFILE
Victoria Capital Partners (VCP) is an independent investment firm, which is led in large part by the team that was formerly responsible for investments of DLJ South American Partners. VCP focuses on private equity investments in South America and manages two funds: SAP I and SAP II. VCP targets growth-oriented companies across its core markets in South America, which include Brazil, Argentina, Colombia, Peru and Chile. VCP has capital commitments of over US$1.7 billion.

FUND NAME
Victoria South American Partners II

FUND SIZE
US$850 million

TOTAL AUM
US$1.8 billion

OPPORTUNITY

VCP identified the potential of the agricultural sector as a target for investment because of the continued growth in global food demand. Economic and population growth, principally in the developed world, is pushing up food demand, which will require continued growth in crop output. VCP recognized that growth in global agricultural production will require continued expansion of the seed production industry. Increasingly, global biotechnology companies are demanding additional production from South America when it is winter in the northern hemisphere. South American producers are essential for northern hemisphere seeds companies to cover shortfalls that may have occurred during their regular campaign because of poor yields or lags in harvest, to build inventories for new product launches, optimize working capital levels, and reduce testing periods for new products.

VCP identified Satus Ager as a company with the capacity to meet this growing demand. The company, as most of the agricultural industry in Argentina, had the added advantage of having US dollar-linked revenues, which provides a natural hedge against FX volatility for the business. In addition to the company's successful track record as a supplier of the leading global seed companies, it had an opportunity to enter Brazil, the world's fourth largest seed market, as well as other Latin American agricultural markets, but needed help from an investor to manage this growth.

EXECUTION

At the time of the investment, Satus Ager was growing too fast and its founding partners were having difficulties managing this growth. Although they excelled at providing seed production services, they lacked management skills, which was creating operational and financial challenges. VCP helped to bring a professional management team to the company, and successfully transitioned the founding partners away from the day-to-day management of the company. Satus Ager brought in former executives of multinational companies to occupy key management positions. The fund clearly defined key roles and responsibilities and employed outside consulting for the management transition. This helped to vastly improve the corporate culture by taking a management-by-processes approach. This also boosted accountability by creating a system of monthly reporting and feedback as

well as fact-based decision making. Monthly management and executive meetings reviewed performance and the management team formulated a strategic business plan. The company implemented a new evaluation and compensation plan based on budget objectives, to best align the interests of both shareholders and management. Although right after closing the company suffered decline in overall activity for its seeds business, the changes implemented in the company resulted in significant cost reductions, including a 29.1% decline in spending on leasing land, a 20.7% fall in the costs of inputs, such as fertilizers and herbicides, a 7.2% reduction in labor costs, and a 35% reduction in overhead expenses through a rationalization of functions and closer control on procurement. With VCP's help, the company decided to exit the bulk commodities production business in 2016 and focus on high margin crops, expand to Chile, and is in advanced negotiations to enter the Brazilian and Mexican markets. Finally, VCP profited from a price adjustment mechanism agreed at the time of the investment given the intrinsic volatility of the business, which helped protect the value in case of an initial decrease in results, which ended up materializing at the onset of the investment but was later successfully reversed.

OUTCOME

VCP partially exited Satus Ager in March 2018 through a secondary share sale to Indiana-based Remington Seeds, in which both the partners and founders sold stakes. The company showed solid growth, despite the volatile market. Remington Seeds is a world leader in the seed production segment and the fact that Satus Ager was able to bring Remington on board as a regional strategic partner highlights the quality of the company.

The investment benefited from an early change in management. The corporate culture was addressed in the due diligence stage, so immediately after closing VCP was able to hit the ground running to improve management, setting the stage for the company's success. With improved management communication and control, the company was able to grow in a profitable way, which was a key factor contributing to the successful partial exit in 2018.

ESG IN FOCUS

The company always had a strong focus on social and environmental issues and these initiatives were advanced following VCP's investment. Prior to VCP's investment, the company created the Nuestra Señora de Loreto Foundation, which managed a health clinic that provided basic healthcare services in Santiago del Estero province in the north of Argentina, which is the origin for many of the company's temporary workers. The company provided supplies and assistance to the clinic but eventually decided to transfer the clinic to the provincial government. Satus Ager also began donating medical devices to hospitals in Buenos Aires. The company also took an active interest in the schools located near its plants, donating supplies as well as installing electricity in one school.

The company also worked to reduce its environmental impact, receiving a series of certifications and also creating annual monitoring of its environmental impact. The company also increased energy efficiency and created a comprehensive waste management systems.

VCP also made significant improvements on the governance side, creating a corporate culture in a successful business that had outgrown its initial administrative structure. VCP transitioned the shareholders away from the day-to-day activities of the company and brought a professional management team, implemented regular management, Board and shareholders meetings, created specific committees, clearly defined management roles including the empowerment of the CEO position, and introduced fact-based decision making, which helped in develop a processes and planning culture and assign accountability on goals and results.

DATE OF INVESTMENT DEC 2013

AMOUNT US$219.4 MILLION

PARTICIPATION/STAKE 40%

COMPANY NAME

CBO - Companhia Brasileira de Offshore
www.grupocbo.com.br

INDUSTRY / SECTOR Oil & Gas

LOCATION(S) Rio de Janeiro, Brazil

DESCRIPTION

Companhia Brasileira de Offshore (CBO) builds, repairs and operates offshore supply vessels for the largest players in the Brazilian upstream oil & gas industry. CBO is ranked 13th globally and second in Brazil by number of vessels. CBO has strong, long-term relationships with the main players in the Exploration & Production (E&P) industry. It owns two established shipyards and a portfolio of 33 vessels.

INVESTOR PROFILE

Vinci Partners is an alternative investments platform, specialising in asset management, wealth management and financial advisory services. Vinci was founded in October 2009 by a group of highly experienced managers in the financial market. It has a vast knowledge of the Brazilian economy and an extensive relationship network. The company is comprised of teams that can operate independently, but together produce synergies and results. Vinci Partners now manages approximately USD 6.1 billion.

FUND NAME

Vinci Capital Partners II

FUND SIZE US$1.4 billion

TOTAL AUM US$6 billion

OPPORTUNITY

Vinci identified Brazil's rapidly expanding oil & gas industry as an interesting target for private equity investment but was seeking a company that would be protected from the cyclical nature of the industry. After extensive research, Vinci's investment team identified the offshore marine support industry as a target. This segment not only had significant growth potential due to rising demand for medium-to-large supply vessels but was also protected by legislation that gives preference to vessels under Brazilian flag. This segment is also attractive because of the subsidized interest rates provided by the Brazilian Merchant Navy Fund, which grants companies loans at very favorable interest rates to encourage local construction of vessels.

Vinci identified CBO as a company that was well-positioned to take advantage of growth trends in this industry, but also as a candidate to gain market share from foreign vessels, which had roughly 55% market share at the time the investments was made. CBO was also a vehicle for consolidation, because the top five players in this industry accounted for only 38% of the market. Furthermore, CBO had a reputation for its high-quality engineering. When Vinci initially approached the company, the family was not interested in selling. But several years later, the family changed its mind and Vinci was invited to participate in the process. Vinci learned that local private equity fund Pátria was also participating in the process and the two fund managers – which had worked together on previous investments – decided to join forces to bid for the company. At that time, Pátria was building a company, Oceana, which is like CBO, and as a part of the deal, the two companies were merged, creating a leading player in the sector.

EXECUTION

Once the acquisition was completed, the new partners, which also included the equity wing of Brazil's BNDES development bank (BNDESPar), focused on merging the two companies and increasing efficiencies. The partners decided to keep CBO's CEO during the transition, because of his knowledge of the industry. For nearly two years, the outgoing CEO worked closely with the management team appointed by Vinci and Pátria.

The new management also started to aggressively focus on implementing a growth strategy. During this period, CBO won bids for nine new contracts at very attractive terms and secured long-term financing for up to 90% of its CAPEX requirements. The company partially demobilized one shipyard and consolidated operations, which contributed to cost savings. Still, the company delivered all the new ships on time and on budget, while maintaining outstanding efficiency in operating its vessels, with off-hire rates and downtime indicators that were well below the market average.

Overall, CBO implemented a cost efficiency program with savings of approximately BRL 32 million on a full-year basis. With limited investment, the company shifted part of its strategy from the oversupplied market of platform supply vessels (PSV) into ROV support vessels, a market that offered better perspectives. CBO reorganized its commercial strategy by investing in new tools and techniques to improve its market position and its bidding strategy to gain market share from foreign vessels.

OUTCOME

In the period immediately following the investment, state-controlled oil company Petrobras became the center of a corruption scandal. The "Car Wash" (Lava Jato) investigation resulted in significant changes to Petrobras' management team and to its business practices. CBO had to focus on maintaining its relationship with its main client, Petrobras, while keeping up its quality of service. Although criteria changed because of the crisis and Petrobras started to demand more from its suppliers, CBO was able to maintain its high rank among Petrobras' suppliers. CBO also took advantage of the regulatory protection for Brazilian flagged vessels and was able to maintain its revenues during the downturn in the demand cycle. This is because foreign vessels lost contracts to local ones, which allowed the company to maintain better occupancy rates than its competitors. The company is now well-positioned to take advantage of the next upswing in E&P investment in Brazil. As a result, the company saw an average annual increase in revenues of nearly 14% between 2014 and 2018 as well as a 19.2% increase in EBITDA.

ESG IN FOCUS

CBO remained focused on improving efficiency while further enhancing its environmental and safety policies. After the changes in management, CBO vessels obtained ISO and OSHAS certificates. The company also developed strict procedures for waste management which reduced waste and enhanced recycling. In 2016 alone, approximately 45 tons of recyclable waste and 704 cubic meters of oil residue were processed by the company, reinforcing management's commitment to environmental preservation.

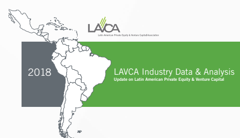
The company also created an environmental education program, which trained employees on how day-to-day operational activities can affect the environment and how to reduce risks. The company also changed its purchasing policies, to prioritizes products that generate the least possible amount of waste.

CBO is also actively engaged in promoting the development of the communities where it operates. The company has a professional development program for young people in poor communities through dedicated projects. For example, "Projeto Crescer" was developed to offer professional training to young people in the communities around CBO's shipyard in Itajaí in Santa Catarina state. This program helped the company to integrate with the community by investing in training programs that helped young people enter the labor force. The company has a program to include people with disabilities in its workforce. CBO also supported the construction of a clinic for a Santa Catarina-based organization that takes care of special-needs patients (APAE). All the infrastructure for this project was donated by CBO.

The company also worked closely with the community during the period before the construction of the ships was concluded, which was going to cause job loss for people working in the shipyard. CBO established a transparent communication process with the community and has guaranteed that it will give preferential hiring to former employees if it receives new contracts to build ships.

CBO meets the highest standards of corporate governance required by the market regulator and has an internal code of ethics that applies to all employees and is part of all new employees' training. A formal ethics committee was created to address any claim or violation of the code and monitor employee and management conduct. The committee reports to the board of directors. CBO also has an ethics reporting channel to receive complaints from employees, suppliers and customers.

LAVCA PRODUCTS



LAVCA Industry Data and Analysis

Represents the most comprehensive and accurate source of regional industry data on private equity and venture capital investments available to date, and has been designed for use in investor presentations, media reports, and conferences.

LAVCA Online Directory

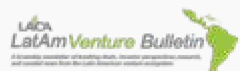
The Latin American Investor Network, is the only comprehensive online database of Latin America private equity and venture capital fund managers.

LAVCA Real Estate Report

Latin American Private Real Estate presents an independent perspective on the size of the Latin American private real estate market, identifying the main players, geographies, and relevant sectors in the region, with a particular focus on Brazil, Mexico, Colombia, Peru, and Chile.

The Latin American Private Capital Update

The Latin America Private Capital Update is the official newsletter of LAVCA.



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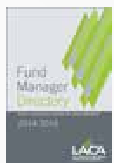

The LAVCA Fund Manager Directory

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 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.

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

The Latin American PE Deal Book & ESG Cases

The Latin American Private Equity Deal Book & ESG Cases profiles 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.

Latin American Private Capital Fund Terms & Compensation Report

A benchmarking tool on preferred fund terms and compensation strategies for domestic and international GPs who are active in Latin America across the asset classes of private equity, venture capital, and real estate.

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