SECOND EDITION

THE LATIN AMERICAN PRIVATE EQUITY DEAL BOOK & ESG CASES

Latin American Private Equity & Venture Capital Association

Building a better working world

CONTENTS

INTRODUCTION

The PE industry remains in a period of rapid evolution. Globally, PE firms are changing the ways they do business by adding new products lines across the alternatives space, changing the ways that they interact with LPs, and developing best practices focused on becoming increasingly sophisticated in the ways that they source and manage their investments.

Perhaps the most important development for the industry over the last ten years however, is the rapid expansion of PE across the emerging markets. Regions including Latin America, Africa, Eastern Europe, India, Southeast Asia, and China have all seen strong interest from Limited Partners (LPs) and General Partners (GPs), fueling a massive scale-up in allocations to established local managers and spurring increased involvement from globally diversified players. Indeed, PE fundraising for the EMs has grown from a rounding error to more than 10% of global investor commitments in the space of just over a decade.

2015 however, saw many economies across Latin America enter rough winds, led by a slowdown in China, falling commodities prices, and an imminent rise in rates in the developed markets. While EMs as a whole are still growing faster than most developed economies, the margin has narrowed to its slimmest in the last 15 years.

Many PE investors however, see opportunity amid the challenges. Valuations, a limiting factor when the macro environment was red-hot, have moderated across many industries and in many geographies. Currencies have seen sharp depreciations, making acquisition candidates more attractive in US dollar terms. Traditional sources of lending are becoming more expensive across much of Latin America, making PE an increasingly attractive option to business owners looking for financing. Perhaps most importantly, the long terms secular trends driving growth – a rising middle class, increased consumerism, and favorable demographics, remain largely intact.

As a result, Latin America will remain a source of continued opportunity for investors with patience, discipline, and the ability to add operational value; because despite the macro winds sweeping Latam, the core precept of PE remain unchanged – to take a company and make it better. It is in challenging times when entrepreneurs and family owners can most benefit from the experience and operational value-add of PE, enabling companies to deliver sustained and meaningful outperformance even amid a lower-growth environment.

LAVCA and EY are proud to present the following report, which documents, through a series of case studies, the ways that PE firms help companies reach their full potential across a wide range of geographies and sectors. These case studies paint a picture of a maturing industry that is utilizing an ever-expanding toolkit to help deliver growth amid a changing environment. Taken in aggregate, they provide compelling evidence of PE's increasingly essential contribution to Latin America's economic landscape.

– EY

COMPANY NAME

Atlantic Energias Renovaveis
atlanticenergias.com.br

INDUSTRY / SECTOR

Renewable Energy

LOCATION(S)

Brazil

DESCRIPTION

Headquartered in Curitiba, Atlantic Energias Renovaveis builds and operates renewable power generation projects in Brazil. By the end of 2015, the company expects to have 250MW of generation capacity from wind farms in Rio Grande do Norte and Bahia states as well as a small hydroelectric plant in Santa Catarina. Atlantic is currently on target to complete all of its 652MW of contracted power generation capacity by mid-2018. The company also has the exclusive rights to develop additional wind generation capacity in Rio Grande do Sul, Bahia and Piaui states.

INVESTOR PROFILE

Actis is a leading pan-emerging markets investor, with a portfolio of investments across Asia, Africa and Latin America and US$7.6b of funds under management. Actis has three business units: private equity, energy and real estate. Within its energy business, Actis focuses on making investments in power generation and distribution companies in emerging markets.

DATE(S) OF INVESTMENT 2013

PLEDGE AMOUNT US$355 MILLION

PARTICIPATION/STAKE 60%

Actis
The positive power of capital

FUND NAME

Actis Energy 3

FUND SIZE

US$1.15 billion

TOTAL AUM

US$7.6 billion

OPPORTUNITY

Actis began actively seeking investments in Brazil's renewable energy segment in 2013 prior to the close of the Actis Energy Fund 3. Brazil's renewable energy segment has a supportive regulatory environment with competitive financing sources building on a track record of energy investing in Latin America since 2003. Additionally, the country has world class wind resources. The Brazilian government has consistently held consistent auctions for new power generation projects, fostering the development of new wind projects. Government policies have also promoted the creation of a strong local supply chain. There is also significant growth potential for new power generation capacity, especially wind, as the country seeks to diversify its power mix to become less dependent on hydroelectricity. A local Brazilian investment bank presented Atlantic to Actis in 2013, and it was immediately clear that the company was aligned to Actis' investment strategy of responding to the demand for electricity in high growth markets by investing in and establishing energy generation businesses and distribution companies. Atlantic already had 220MW in projects with long-term power purchase agreements (PPAs) as well as a proprietary land bank with 1.8GW of wind potential. Despite having all of the ingredients to be a leader in the renewable energy segment, the company was facing financial and technical difficulties, which were slowing the development of its existing projects. Actis saw Atlantic as a company with strong growth potential in need of capital and improved long-term planning and governance.

EXECUTION

Actis initially focused on reducing the company's debt load and completing the construction of the projects that were in the development phase. After the company finished the construction of its first three projects, it began construction of a fourth project which had been contracted in the 2011 new energy auction. Once construction of these projects was moving forward, Atlantic began expanding its portfolio, participating in government-sponsored auctions to contract new power generation capacity. In 2013 and 2014, the company participated in four new energy auctions, signing PPAs for projects in three states with capacity of 432MW. Actis also took steps to improve the governance of the company, forming a seven-member board of directors. Actis brought members to the board with experience in the electricity sector and knowledge of the regulatory environment in Brazil. The board is very active in supporting the management of the company focusing on guaranteeing that the company meets all of its deadlines, which is crucial for success. One of the outside board members was someone with a lot of construction and management experience, who was later appointed CEO of the company. With his board experience, he was well-received by the company's shareholders and staff. Actis also helped Atlantic to revamp its project management policies, bringing in a state-of-the-art system to monitor projects to ensure on-time completion. A system of strict financial controls, with a strong focus on budgeting was also implemented, along with a thorough code of conduct, and for the first time and the management was held accountable to the company's business plan.

OUTCOME

With the management of the company revamped, Atlantic has a system in place that allows deadlines to be met and projects to begin delivering power to the grid ahead of PPA start date. Both local and international financial institutions work with Atlantic as do all of the leading suppliers of equipment. Atlantic has been growing at a rate that allows the company to guarantee quality. Although there is room to expand further, Actis has opted to maintain the company at its current size of 650MW of capacity operating by mid-2018, though marginal expansion of existing projects have not been ruled out. For the future buyer of Atlantic, there will still be room to grow the firm's capacity by developing its project pipeline as the company also has rights to a propietary land bank. Despite the recent depreciation of the Brazilian Real, Atlantic has been able to continue to deliver attractive returns in US$, which confirms the company's resilience, even amid growing macroeconomic trouble in Brazil. The foreign exchange risk has also been mitigated by having all of the firms PPA contracts indexed to local inflation.

ESG IN FOCUS

Actis' investment model focuses on delivering positive social, environmental, and governance returns for all of its investments and has a model that tracks the benefits in these areas. In the case of Atlantic, this has meant that in addition to meeting all of the environmental and social requirements of the Brazilian government for the construction of new power projects, Atlantic seeks to go beyond the minimum requirements. In addition to its investment in clean energy, the company has also made investments in the communities surrounding its wind farms in an effort to improve the quality of life of local residents. These investments include education, construction of local infrastructure, and other economic and social activities. Atlantic also supports the Centro de Educação João Paulo II, which is a school for low-income children in the Curitiba metropolitan area.

On the governance side, Actis implemented a strict code of conduct in Atlantic which applied to all aspects of the company's operations including purchasing, payments, signing external contracts, hiring, money laundering, and corruption. The code of conduct is required for all employees and has contributed to building Atlantic's solid reputation among the financial community as well as the renewable energy sector.

COMPANY NAME

Kroton Educacional
www.kroton.com.br

INDUSTRY / SECTOR

Education

LOCATION(S)

Brazil

DESCRIPTION

Founded in 1966, Kroton is one of the largest private education companies worldwide by market capitalization. It provides post-secondary education services to more than one million students, with bachelor and technical degree programs offered at 130 campuses and 726 distance-learning centers throughout Brazil. The company also offers teaching technologies and materials to a network of approximately 245,000 K-12 students in 870 affiliated schools.

INVESTOR PROFILE

Advent International is one of the leading global private equity investors. The firm began operating in Latin America in 1996 and has since invested in over 50 companies located in seven countries across the region. Currently deploying its sixth regional fund, capitalized at $2.1 billion, Advent invests principally in Brazil, Colombia and Mexico, but also considers opportunities in other Latin American countries. The firm pursues control-oriented investments in later-stage businesses in its core sectors, including business and financial services; healthcare; industrial and infrastructure; retail, consumer and leisure; and technology, media and telecom.

DATE(S) OF INVESTMENT JULY 2009, MARCH 2012

AMOUNT US$274 MILLION

STAKE 29% AT ENTRY

FUND NAMES

Latin American Private Equity Fund IV (LAPEF IV) and Latin American Private Equity Fund V (LAPEF V)

FUND SIZE

LAPEF IV US$1.3 billion
LAPEF V US$1.65 billion

TOTAL AUM

US$33 billion

OPPORTUNITY

In 2007-08, Advent had identified the education sector in Brazil as one with high growth potential. At the K-12 level, a growing middle class was seeking better education opportunities for their children. At the post-secondary level, government policies implemented in the late-1990s and early 2000s had significantly increased demand for college degrees, especially among socioeconomic classes that did not previously have access to this segment. Despite the strong growth of the segment, it remained extremely fragmented and showed significant potential for consolidation. The top 10 companies in the local education market represented only 17% of the sector's revenue, leaving considerable opportunities for mergers and acquisitions.

At the time, Kroton was already one of the top 10 education companies in Brazil with approximately 44,000 post-secondary students and 226,000 K-12 students. In 2007, it listed on the Bovespa, raising R$400 million. Over the next two years, the company spent R$300 million to make several acquisitions. Despite its compelling strategy, the business had low liquidity and a relatively low market capitalization. To help accelerate its growth, the company management was actively seeking an investor and approached Advent because of a long-standing relationship. Although Advent did not typically invest in companies that were already listed, the firm believed that Kroton had even greater growth potential. Advent invested US$143 million in the business through a capital increase that was well received by the market.

EXECUTION

Post-investment, Advent worked with the company to reinforce its management team by hiring a new CEO, CFO, COO and IR director, as well as several middle managers. A member of Advent's deal team also joined Kroton as head of the newly created M&A group. Additionally, Advent helped the company to restructure its board of directors with independent members and establish special board committees, including "Finance and M&A" and "Academic".

In March 2010, less than one year after Advent's investment, Kroton acquired IUNI, an educational group in Brazil with approximately 50,000 post-secondary students, more than doubling Kroton's size. A few months after the acquisition, the company appointed Rodrigo Galindo, a member of the family that founded IUNI, as CEO.

Management implemented strict budgetary controls, increasing operating margins by 6.4% (excluding the effects of acquisitions) from 2011 to 2012. By March 2012, Kroton had entered the distance-learning market through the acquisition of Unopar, the largest distance-learning player in Brazil, for R$1.3 billion. Advent invested an additional US$131 million to help fund the transaction. Kroton also bought Uniasselvi and Unirondon, two meaningful acquisitions in 2012. Uniasselvi was the third-largest company in distance learning in Brazil with 76,000 distance students and 12,500 traditional students. Unirondon had 6,000 students.

OUTCOME

In all, Kroton completed eight acquisitions during Advent's ownership. The ninth deal, a merger with Brazil's No. 2 player in education, Anhanguera, was signed during Advent's holding period and secured antitrust approval after Advent exited the business. Advent helped oversee Kroton's transformation from the No. 9 player in Brazil's education market to the leader in the country by expanding its student base 12 times. It also helped expand net revenue by 6 times and EBITDA by 14 times in just four years, largely through acquisitions. Prior to the Anhanguera acquisition, Kroton had already increased its number of post-secondary students 12 times under Advent's ownership, from 44,000 students in 2009 to 519,000 in 2013. EBITDA over the period increased by 14 fold from R$42 million to R$600 million. With Anhanguera, Kroton has more than one million post-secondary students and a market capitalization of R$16.6 billion (US$4.3 billion) as of November 06, 2015, making it one of the largest education companies in the world by that metric. Following the successful execution of the value creation plan, Advent sold its shares in Kroton through a series of block trades from December 2012 to October 2013.

ESG IN FOCUS

In a move to address high demand and lack of resources to pay for tuition, Kroton signed up to Prouni, a government-funded program that allowed the company to provide up to 8% of its available seats free to students from poor backgrounds in exchange for tax exemptions. Additionally, Kroton's market leadership provided a unique opportunity to partner with Brazil's Ministry of Education in improving "Novo Fies", a credit risk-sharing scheme between education companies and the government intended to enable any student the opportunity to study regardless of their financial situation. Kroton's leadership of this initiative has ensured that one in four of its students takes advantage of the program. The company also supports the Pitagoras Foundation as a way to give back to local communities. The foundation is a nonprofit organization created by Kroton's founders in 1999 to improve the quality of education and educational management. Today, the foundation reaches 1,075 public school students, 2,244 faculty and 694,000 students in 105 cities throughout Brazil. For this initiative, Kroton provides free training of teachers and staff and educational materials for teachers, targeting low-income public K-12 schools in over 100 cities in Brazil. Kroton's scholarship program, EducaMais Brasil, also helps talented but poor students to an otherwise unattainable education; it benefited over 19,000 students in 2013. As part of Kroton's post-secondary education, an initiative was also developed to encourage law and healthcare students to go into disadvantaged communities, supported by their university, to provide advice and pro bono services to those who could not afford them. In 2013, Kroton carried out 699 projects reaching over 490,000 people.

COMPANY NAME
Comfrio Soluções Logísticas
www.comfrio.com.br

INDUSTRY / SECTOR
Logistics

LOCATION(S)
Brazil

DESCRIPTION
Founded in 1996, Comfrio Soluções Logísticas, headquartered in São Paulo, Brazil, offers integrated logistics solutions to its customers, with particular emphasis on its cold chain capabilities. The company, which operates nationwide, provides warehousing capabilities including frozen, refrigerated and dry storage, as well as logistics. In December 2014, the company acquired Stock Tech Logística to form the largest player in controlled-temperature logistics. The company's clients include Brazil's largest animal protein processors (BRF, JBS, Aurora) as well as food services clients, such as Starbucks and Outback, and seed producers , such as Dow and Monsanto.

INVESTOR PROFILE
Aqua Capital was founded in 2009 with the intention of focusing on Brazil and South America's fast growing agribusiness sector. The fund targets family-owned companies located outside of the region's large metropolitan areas in a broad range of agriculture-related sectors. It targets companies with annual revenues of US$15-150 million.

DATE(S) OF INVESTMENT 2011

AMOUNT US$33.3 MILLION

PARTICIPATION/STAKE 73.92%

FUND NAME
AGF Latin America

FUND SIZE
US$173.4 million

TOTAL AUM
US$230 million

OPPORTUNITY
Aqua Capital's partners targeted agriculture because of their own personal experience and knowledge of the sector. Comfrio was a classic example of a company that operated in a fragmented segment with lots of growth potential. At the time of the investment, Comfrio was one of the leading companies in temperature-controlled logistics with total storage capacity of over 280,000m^2 located in key locations across the country. The company had authorization to export to over 30 countries and was well-placed to capitalize on the demand for safe and efficient logistics and transport capacity for frozen beef, chicken and pork – three markets where Brazil is a global leader.

Aqua Capital recognized the significant potential of this segment. It could expand the business into new areas and could refocus the company's operations from merely providing transportation for bulk products destined for the export market to a more domestically oriented logistics business that provided value-added services. Additionally, there were only a few large players operating in this market and thousands of small mom-and-pop companies – but no mid-sized company that could provide quality and reliable services nationally at a reasonable price.

EXECUTION

At the time of the acquisition, food service only accounted for 10% of the company's revenues. Aqua Capital initially focused on expanding its operations into food service by working closely with management to expand the existing client base to include clients such as Outback Steakhouse and Starbucks. Efforts included bringing in a new CEO with experience as a general manager of a large multinational corporation and a COO with vast experience in logistics. Aqua also expanded its operations into the warehousing and distribution of seeds, adding clients such as Dow Chemical and Syngenta to its roster. By expanding into these new business areas, the company reduced its dependence on meat exports, which is an extremely volatile business in terms of revenues.

In an effort to improve long-term planning, Aqua played an instrumental role in increasing the average contract length from one year to three. Aqua negotiated a sale-and-leaseback operation of two of the firm's distribution centers. This operation resulted in net proceeds of R$36.2 million as well as free rent for 26 months for these units. This strategy was very successful for the first three years of the investment.

In 2014, Aqua identified an acquisition target which would allow Comfrio to quickly leverage growth and expand into the warehouse management business. In December 2014, Comfrio concluded the acquisition of Curitiba-based logistics firm Stock Tech Logística. This deal required Aqua to buy out the founding partner of Comfrio, owing in part to a difference in strategic and capital allocation priorities. Stock Tech has over 500,000m^3 of cold storage (including dry storage) capacity in 12 locations across the country, nearly all of which were very complementary to Comfrio's existing operations. Stock Tech also had strong client relationships in in-house logistics. This business involves managing and supplying warehouse spaces owned by their clients. Clients in this segment include J. Macedo, one of Brazil's largest manufacturers of wheat flour-based products such as cookies, pastas, and snacks.

OUTCOME

With the acquisition of Stock Tech, Comfrio became the largest temperature-controlled logistics company in Brazil with over 1,900 employees in 12 locations. Shortly after the deal was concluded, Aqua Capital was approached by AGRO Merchants, a leading global company in refrigerated storage and logistics. Together with its financial sponsor Oaktree Capital Management, acquired a 26% stake in Comfrio. The partnership will give Comfrio access to AGRO Merchants' global clients that operate in Brazil. Although Aqua continues to be the controlling shareholder of Comfrio, the IRR on the deal has already reached 44.9% and an MOIC of 2.1x in local currency.

ESG IN FOCUS

In addition to hiring a new CEO and COO, Aqua played an instrumental role in bringing a new CFO to the firm with prior experience at some of Brazil's largest companies. A board of directors was also created, with external directors with experience in private equity investment. The creation of the board of directors allowed the company to implement a structured decision-making process. The new executives were also given stock options and a bonus scheme was implemented for more than 30 employees.

Aqua did extensive environmental and social due diligence on the company and made several investments based on these recommendations. For example, a R$8.5 million investment was made to upgrade the cooling systems, operational and energy efficiencies, and to create sustainable water management. The company also has increased investments in energy efficiency, which has helped bring down costs and reduce the carbon footprint of the company.

COMPANY NAME

Compañia de Desarollo Aeropuerto El Dorado (Codad)

www.codad.com.co

INDUSTRY / SECTOR

Transportation (Airport Concession)

LOCATION(S)

Bogotá, Colombia

DESCRIPTION

Codad is the airport concessionaire of El Dorado International Airport. Codad was established in 1995 as the concessionaire in charge of building a second runway at the Aeropuerto Internacional El Dorado, Bogotá's main airport. El Dorado is the third busiest airport by passenger numbers in Latin America.

INVESTOR PROFILE

Ashmore Colombia is an Andean private equity manager, investing in infrastructure-related assets. Ashmore Colombia has made investments in power generation, specialized transportation and heavy lift, oil and gas, telecommunications, social infrastructure (healthcare and education), and transportation. Ashmore Colombia is a subsidiary of Ashmore Group, an emerging markets investment manager with over twenty years of experience. Inverlink, a leading Colombian investment bank and M&A advisory firm, is also a shareholder of Ashmore Colombia.

DATE(S) OF INVESTMENT JANUARY 31, 2014

AMOUNT US$20 MILLION

PARTICIPATION/STAKE 61.9%

FUND NAME

Ashmore Colombia Fund I

FUND SIZE

US$170 million

TOTAL AUM

US$184 million

OPPORTUNITY

In 2012, Ashmore Colombia did extensive research into over-leveraged Spanish companies that owned attractive assets in Colombia. The firm identified Codad, which was owned by Abertis Airports, a subsidiary of the Spanish toll road and telecommunications group. Abertis was seeking to sell its international airport assets as part of its restructuring plan.

Codad attracted Ashmore's interest for four main reasons: First, Codad has highly predictable cash-flow and a debt free capital structure. The company also has yearly minimum revenue requirements, which guaranteed a minimum return on equity. Codad also has a 15-year operating track record and was experienced in budgeting and executing airport maintenance. Finally, the investment is self-liquidating, which eliminated the need for an exit strategy. Ashmore identified the possibility to renegotiate and extend Codad's concession contract through improving relations with Colombia's National Infrastructure Agency ("ANI"), Codad's counterparty in the concession and by making additional investments on the runways and runway exits. In 2012, Ashmore approached Abertis to acquire its 85% stake in Codad.

Codad's concession gives the right to charge airlines a regulated landing fee for all domestic and international flights. These fees have a natural hedge because they are denominated in US dollars and Colombian Pesos. Furthermore, between 2004 and 2014, air travel grew at an average annual rate of over 10%, according to Colombia's civil aviation authorities.

EXECUTION

After taking control, Ashmore immediately began negotiations with ANI to extend the concession contract, which was due to expire in August 2015. The process was complex because of ANI's commitment to the terms of the contract and need to be convinced that the contract extension was in the best interest of the government and the airport users. Ashmore offered to invest US$48 million in new runway exits and maintenance in exchange for the contract extension. Likewise, it focused on improving the relationship between Codad and the aviation authorities, by replacing Codad's CEO. With the improvement of the relationship with authorities, Codad was able to secure the concession extension and form a partnership with the government to improve services for airport users. It was not necessary to inject further capital from the Fund into the concession to execute the improvements. They were being financed with cash and debt capacity.

OUTCOME

With the successful extension of the concession contract, Ashmore moved ahead with the investments in the El Dorado airport. These included new rapid exits from the runways that will decrease the amount of time each aircraft occupies the runway when landing, from over one minute to 46 seconds. This will allow the airport to increase its capacity by nearly one-third, from 76 to 100 operations per hour. Codad is also building a new taxiway for aircrafts that need maintenance, which keeps aircrafts off the existing runways, reducing interruptions to take-off and landing. Investments were also made in landing lights, which gives the airport a higher international rating and allows it to receive a greater number of international flights.

Even without the extension of the contract, the Fund's investments were partially realized in just three months because of operational cash-flow. As of 30 June 2015, the Fund had received US$18.8 million in distributions from Codad and from technical service agreement payments, equivalent to 94% of its original investment. The gross IRR of the investment reached nearly 68% as of 30 June 2015, while the MOIC reached a gross 1.64 times as of 30 June 2015. Codad will continue to generate cash-flow through the end of the concession. As a result, Ashmore expects the investment to generate a 76% gross IRR and the MOIC to be over 2.0x by the end of the concession period.

ESG IN FOCUS

In addition to improving the relationship between the concession holder and the government, Ashmore has a dedicated compliance officer to make sure that all of its investments including Codad meets all of its contractual requirements. Similarly, Ashmore hired a specialized firm to assess the company's environmental impact and to ensure that the construction projects followed best practices.

Ashmore Colombia has an environmental and social management system (ESMS) agreement with both the World Bank's International Finance Corporation (IFC) and the Inter-American Development Bank (IADB). As part of this agreement, Ashmore also adopted the Equator Principles, which is a risk management framework used by financial institutions to manage and asses the environmental and social risks of a project.

COMPANY NAME
Unicentro Yopal

INDUSTRY / SECTOR
Real Estate

LOCATION(S)
Colombia

DESCRIPTION
Located in Yopal, the capital of Casanare state in the foothills of the Eastern Cordillera region, Unicentro Yopal is the first enclosed shopping mall in the city. The shopping mall has a total of 147 stores with anchor tenants including Jumbo and Cinemark Cinema. Unicentro Yopal has total area of 46,697m² with saleable area of 22,552m².

INVESTOR PROFILE
Founded in 2006, Avenida Capital is a private equity real estate investment firm with offices in Bogotá and New York City. The company pursues opportunistic fund and direct equity investments across select property types throughout Latin America. The firm has committed capital both as principal and on behalf of its investors to residential, retail and mixed-use projects in Colombia, Brazil, Chile, and Panama.

DATE(S) OF INVESTMENT MARCH 2012

AMOUNT US$7 MILLION

PARTICIPATION/STAKE 80%

FUND NAME
Avenida Colombia Real Estate Fund I

FUND SIZE
US$140 million

TOTAL AUM
US$350 million

OPPORTUNITY

Avenida Capital had identified a significant lack of adequate retail space across secondary cities in Colombia. Despite middle class expansion and rising income levels of Colombians of all classes, the vast majority of quality retail space was concentrated in a handful of major cities. With a population of 49 million and five cities with populations of over one million and another 23 cities with over 250,000 inhabitants, Avenida saw significant potential for investment. Furthermore, Colombia is also a relatively easy place to do business, with clear rules that make it more straight forward to develop real estate.

The fund manager identified Yopal as a fast-growing region of Colombia which did not have adequate retail space. Yopal is the capital of Casanare state, which has benefited from the increase in investment in the oil industry. The annual per capita income of the state is US$12,000, roughly 20% higher than the national average. Yopal and its surrounding metropolitan region have a population of roughly 400,000 people. With insufficient retail space and growing middle class population with steady income, Avenida Capital saw an opportunity to build a greenfield shopping mall. Avenida worked with a local partner – Constructora Pedro Gómez – which is the most experienced player in the retail segment in Colombia. This partnership was essential during the negotiations with retailers as well as overall business strategy. Together with Constructora Pedro Gómez, Avenida confirmed the strong demand for new, high quality retail space in the region.

EXECUTION

After identifying Yopal as an investment target, Avenida began conversations with anchor retailers to test their appetite for the project. Based on these conversations, Avenida concluded that the Yopal shopping center should be a "for sale" project. Avenida identified strong demand from retailers to purchase their storefronts. Because many retailers have experienced extended periods of economic turbulence in the past and had often profited more from the real estate than from their retail operations, there is a cultural preference from many Colombia storeowners to purchase their retail space rather than rent space. Likewise, there were concerns that future institutional investors could be reluctant to buy the project because of their lack of familiarity with the Yopal region. Finally, the returns on the for-sale projects were sufficiently attractive, based on sales values projected in initial discussions with retailers.

Constructora Pedro Gómez played an instrumental role in identifying and purchasing the land, as well as obtaining the necessary permits to build the shopping mall. Once the project was structured, Avenida realized there were infrastructure issues, such as the lack of adequate power transmission infrastructure. Without investments to reinforce power transmission, the mall would have been subject to periodic blackouts, which would have made it economically unviable. Avenida began negotiations with the city and the national electric company to build a new substation to guarantee adequate electricity supplies. The fund manager ultimately had to pay for the installation of the substation, but is being compensated for with this investment

OUTCOME

Less than two years after the investment was made, Avenida was able to conclude the exit from Unicentro Yopal via the sale of all of the space to 147 retailers. Once completed, the mall had a very large anchor store with 5,553m^2 as well as two large national branded stores which serves as semi-anchors. Additionally, the mall had 99 inline stores and a CineMark theater with six screens. The mall offered not only quality retail space, but a safe and comfortable leisure space for an underserved community.

Buyers included multinational firms, such as Carrefour, as well as local stores such as Studio F, Arturo Calle and Seven Seven. The project also brought some retailers that were interested in expanding their operations to Yopal but could not find adequate space prior to the opening of Unicentro Yopal. In addition to the mall investment, the fund contributed to improving the local infrastructure via transmission line investments. Avenida was able to complete the substation investment for less than originally projected, which helped boost the margins of the deal. With the success of this investment, Avenida is now considering replicating the model in other parts of the country. Returns on investment reached 68.3% with an MOIC of 1.8 times.

ESG IN FOCUS

Both Avenida and Constructora Pedro Gómez have a strong social component to all of their investments, donating a share of their profits to foundations which aim to improve the well-being of the population. In this case, they talked to the municipal government about the specific needs of the region and concluded that there was a lack of adequate childcare for low income groups. Families were either forced to use sub-standard child care or forego a much-needed second income to watch their children. To meet this need, the investors dedicated an area of the mall for a daycare center. The daycare center is managed by the Avenida Foundation with help from other US and Bogotá-based foundations and offers meals and extended day care to young children.

COMPANY NAME
Softway
www.softwaysa.com.br

INDUSTRY / SECTOR
Information Technology (Business Software)

LOCATION(S)
Brazil

DESCRIPTION
Founded in 1996, Softway is a Brazilian software solutions company for operation, control and management of foreign trade operations including control and management of export and import processes, foreign exchange operations and special customs regimes. The company has over 300 employees and a broad range of clients including large multinational corporations in sectors ranging from retail to pharmaceuticals to aerospace to electronics. Its solutions are complementary to Enterprise Resource Planning (ERP) software solutions, assisting in the execution, control and management of export and import processes.

INVESTOR PROFILE
Founded in 2001, DGF targets venture and growth capital investments in Brazil, especially in the technology sector. Since starting its first fund in 2002, DGF has made more than 30 investments with 19 exits. It currently has 12 portfolio companies.

DATE(S) OF INVESTMENT APRIL 2009

AMOUNT R$10 MILLION

PARTICIPATION/STAKE 30%

FUND NAME
DGF Capital II

FUND SIZE
R$101.52 million

TOTAL AUM
US$180 million

OPPORTUNITY

DGF had done a top-down analysis and concluded that there were a myriad of opportunities related to the ERP segment. After mapping the different segment niches, DGF identified Softway as the leading company in the international trade software niche and began negotiations with company management. Softway had many of the characteristics that DGF seeks in a portfolio company: a great product, recurring revenues, scalability and solid sales. It was also a clear case of a company that needed capital to leverage growth via acquisitions. Because of DGF's experience with other software firms, DGF identified areas where the company could improve its management and operations to become more efficient and to improve margins. Despite the company's solid track record, it had some clear deficiencies and had a business model based on customized services which could not be adequately scaled. DGF identified the possibility to eventually merge Softway with Mastersaf, one of its other portfolio companies.

EXECUTION

Initially, DGF focused on helping improve the management structure of the company. The founder of the company was a university professor specialized in import/export operations, who also did consulting on the side. Overtime, he identified the needs of his clients in this segment and created the software based on this experience. Although his product was very well received, he was focused on the service side, rather than on the software development.

Most of the software was customized for each client, which was both costly and inefficient. DGF helped the company to optimize the software development process, which lead to much less customization of the software and increasing scalability of the business model. DGF helped Softway develop a SaaS model, whereby software licensing and delivery is licensed on a subscription basis and is centrally hosted. The SaaS model is much more valuable in the long-term.

In an effort to help the company focus on more profitable segments, DGF focused on the development of a sales strategy and helped the company to implement this strategy. Early in the investment period, DGF was instrumental in helping Softway expand into new segments. In 2009, the company opened an office in Rio de Janeiro to better meet growing demand from the oil and gas industry for ERP focused on import and export operations. Softway also began its international expansion process, opening an office in Buenos Aires. By 2012, the firm's overseas operations accounted for nearly 10% of its total sales. To help guide the company's strategy, DGF created a board of directors which took a very hands on approach to the company. DGF also brought in an outside board member who was the founder of one of DGF's other portfolio companies and a professional CFO who helped to secure long-term financing at lower costs for the company, reducing costs and raising margins.

OUTCOME

DGF aided Softway in the process of identifying acquisition targets and played an instrumental role in the acquisition of two companies. In 2010, Softway created T. Global, a holding company that would be used for acquisitions. After this, Softway acquired its fist company. Softleasing, which develops software for import/export operations, but focused on small and medium companies. The second acquisition was Trade-Easy, which complimented Softway's existing client base.

Softway posted strong sales growth and benefitted from the managerial changes that came following the DGF investment, however, changing the company's labor regime resulted in lower margins. Although DGF was confident that the margins would rebound, it took nearly two years, but by 2012, Softway was involved in nearly 25% of all of Brazil's import and export operations. This process was essential for Softway's future, because labor liabilities are often a deal breaker for investors. The investment in regularization of its labor force paid off and in 2013, Softway, along with the T. Global holding company, was acquired by Thomson Reuters. The final result was a 41% IRR and a 4x MOIC.

ESG IN FOCUS

One of the main challenges DGF faced with Softway was the company's labor regime. The company had more than 100 people – roughly one-third of its labor force – working as contractors who, by law, needed to have a formal relationship with the company and receive full social benefits. The fund manager calculated potential labor liabilities of R$15 million, or roughly 1.5 times the amount DGF invested in the firm. Although this was a costly transition, it not only improved the governance of the company, making it compliant with labor laws, but also improved the social wellbeing of the company's employees.

COMPANY NAME
ATB Industria de Adesivos
www.tekbond.com.br

INDUSTRY / SECTOR
Consumer/Retail

LOCATION(S)
Brazil

DESCRIPTION
Founded in 2002, ATB manufactures and distributes branded industrial and household adhesives, sealants, tapes and aerosol paints in Brazil under the Tekbond brand name. The company's products are sold to a broad range of industries, including construction, manufacturing, furniture and automotive. Its products are also sold by 150 direct sales representatives to over 5,000 retailers. The company has a production facility and warehouse in Embu das Artes, São Paulo.

INVESTOR PROFILE
Graycliff Partners is an independent investment firm focusing on middle market private equity and mezzanine investments in the United States and Latin America. With offices in New York and São Paulo, Graycliff seeks to partner with companies led by strong, entrepreneurial management teams, providing capital for acquisitions, management buyouts, recapitalizations, growth, and expansion. Graycliff was founded in 2011 after its spin-off from HSBC Capital.

DATE(S) OF INVESTMENT DECEMBER 2013

AMOUNT US$14 MILLION

PARTICIPATION/STAKE 40%

FUND NAME
Graycliff Latin American Partners I

FUND SIZE
US$120 million

TOTAL AUM
US$1 billion

OPPORTUNITY

Graycliff Partners identified the adhesives market as one that would see average annual growth of 15% in coming years. The shareholders of ATB had been approached by a multinational corporation interested in acquiring the firm. Rather than accepting the offer, the owners sought a financial partner to help leverage growth in an effort to increase the company's value, with the idea of selling it in the future. Graycliff was impressed by the quality of the management and believed the interests of the controlling shareholders were very much in line with the goals of the fund. As a family-owned company, ATB also needed to go through a professionalization process for sales, accounting, and investment processes. ATB already had a well-established brand. It also benefitted from high operational margins and low capital expenditures. Likewise, Graycliff identified significant potential to grow the company's earnings by expanding the penetration of its products among a broader range of retailers over a larger geographic region and also to increase its product offerings.

EXECUTION

Once the investment was made, the initial phase involved changing the company's management structure in order to modify the internal decision making process. Initially, Graycliff bought out one of the founding partners of the firm. With the remaining two partners, Graycliff initiated the process of transforming the company from a very family-oriented company to a more professional one with clear growth objectives. This was a significant culture shock for the employees, but to ease this transition, Graycliff expanded profit sharing to all workers in the company which included a bonus scheme based on performance.

Graycliff brought in a CFO who had worked with the fund in other portfolio companies. The new CFO focused on reducing the company's cost of capital, by replacing the high-cost lines of credit that the company had used previously with low-cost, longer term financing. This move significantly lowered operating costs for the company and helped to widen margins.

In 2015, amid growing currency volatility, Graycliff played an instrumental role in renegotiating its contract with its Chinese suppliers. Although the entire Brazilian adhesives industry is exposed to the currency risk because most of its products are imported, ATB has been able to pass the price increase along to its clients. However, the proactive renegotiation of prices gave ATB a cost advantage over its competitors. Despite the higher costs and tighter margins, the company's 2015 first quarter sales and EBITDA were 18% and 17% above budget respectively. ATB also worked on expanding its product lines and implemented a new marketing strategy, which includes redesigning packaging for the entire product line. There was also a stronger focus on the sales of value-added products with higher margins. To market these new products, the company expanded its sales staff and also instituted a compensation system based on performance indicators. The Graycliff investment also allowed the company to double the size of its plant and its warehouse area.

OUTCOME

Despite the adverse macroeconomic climate, the changes to the company's cost structure showed significant results in the first year of the investment. ATB grew by 40% in spite of retail sales of construction materials contracting by 2% last year. Sales continue strong in 2015, with a 20% increase in the first half of 2015, despite an extremely unfavorable macroeconomic scenario.

Since the investment, the company has become more robust financially, with over 5,000 points of distribution nationally, ranging from large building supply chains to small, independent building supply retailers. ATB's Tekbond brand is second in terms of market recognition after Henkel in adhesives and 3M in tapes. Furthermore, the new sales strategy has helped the company to diversify to a broad range of clients and applications, including furniture manufacturing, automotive, shoe manufacturing as well as household and craft applications. This has helped the company to diversify its revenue streams, especially at a time when the construction industry is seeing a downturn. Likewise, the company's long-term relationship and supply contract with its Chinese supply is also an advantage. Graycliff believes that all of these factors, coupled with the company's high growth rate will eventually make it an acquisition target for an international strategic player looking to enter the Brazilian market.

ESG IN FOCUS

Prior to making the investment, Graycliff did extensive environmental due diligence. As a result, the company has improved its control of discarded raw materials and invested in more safety equipment for employees. The company has also implemented a broader recycling program and is in the process of adopting environmentally friendly solvent-free products when possible. The company has also obtained the ISO 9000 certification and is in the process of obtaining the ISO 14001 certification. On the governance side, a new organizational structure was implemented with professional management and a board was created, which had monthly meetings. Shareholders in the firm were moved to board-level positions. Following negotiations with the unions, employees in the production area received variable compensation as well as additional benefits.

COMPANY NAME

AVIS Colombia, Peru and Ecuador

www.avis.com.co
www.avis.com.pe
www.avis.com.ec

INDUSTRY / SECTOR

Transportation (Vehicle Rental)

LOCATION(S)

Colombia, Peru and Ecuador

DESCRIPTION

Mareauto AVIS operates a regionally coordinated full service vehicle leasing and rental operation in Colombia, Peru, and Ecuador as a franchisee of the international renting brand AVIS. The business model is focused on full service leasing of fleets of productive vehicles for small and medium-sized businesses, who often have limited means of acquiring vehicles for their operations. In addition, the company also operates AVIS's more traditional business line of renting consumer vehicles on a short-term basis.

INVESTOR PROFILE

Kandeo was founded in 2010 by senior business professionals with vast, global experience in a wide range of business sectors. The fund manager primarily targets financial services companies focused on people or SMEs that have limited access to traditional banking and credit services. These industry segments include microcredit, fixed assets financing, working capital financing, payroll-deducted loans and housing development. Kandeo typically seeks to make controlling equity investments of US$15 million to US$50 million.

DATE(S) OF INVESTMENT OCTOBER 2011

AMOUNT US$24 MILLION

PARTICIPATION/STAKE 50%

FUND NAME

Kandeo Fund I*

FUND SIZE

US$126 million

TOTAL AUM

US$333 million

OPPORTUNITY

Kandeo identified a growing need for full service fleet leasing in Colombia, Peru , and Ecuador. Full service leasing provides an important opportunity for many small and medium-sized enterprises in the region, where the cost of buying vehicles to support their operations can often be prohibitive. It eliminates the need for large capital expenditures and creates important tax benefits for these companies that are often competing with larger companies with better financial options. While this service addresses some of the principal needs of many of these companies, market penetration still remains very low in even the most developed markets in the target region.

Once Kandeo had identified this important business opportunity, it searched for a strategic partner with significant experience in the automotive sector to help generate maximum value in the investment. Fortunately, the Ecuadorian company Corporación Maresa, which has over 17 years of experience in vehicle renting and full service leasing in Ecuador and over 35 years of experience operating in the automobile sector, was also looking to expand its full service leasing and rental business in Colombia and Peru. The company, however, lacked sufficient capital and local a partner in order to carry out the plan. Both parties realized that the partnership could take advantage of Maresa's regional automotive experience and Kandeo's capital and financial expertise to fulfill the common goal of expanding their full service vehicle leasing and renting in the region.

*Current AUM as of November 2015. Kandeo II will close its second and final round of funding in early 2016.

EXECUTION

Working in unison, Kandeo and Maresa have made significant advances in the AVIS operation in Colombia, Peru, and Ecuador. The companies have utilized the capital from Kandeo to make significant increases in the fleet sizes and is now generating a critical mass of vehicles in each of the operations. In addition, Kandeo and Maresa have worked to unite the operations in the three countries into a consolidated regional operation and now various business functions are coordinated on a regional level. Other operational enhancements have included the development and implementation of a sophisticated risk analysis system that helps to identify risks and profitability in each contract and allows the company to maximize their profits on each. In addition Kandeo has helped promote various improvements in financial structuring, human resources, and operational efficiencies.

The limited market penetration in the region has actually proven to be a bit of challenge for the full service leasing business due to the cultural norm of typically purchasing vehicles instead of leasing. Part of the business development process has been to educate the local businesses on the numerous advantages that the full service leasing model can have on both their balance sheet and income statement through the reduction in capital expenditures and also the significant tax benefits, especially given the new tax regulations for full service leasing.

OUTCOME

This investment and partnership in the Mareauto to AVIS companies has proven to be an excellent move for both Kandeo and Maresa. The extensive experience of Maresa in the industry has been a great compliment to the capital, financial expertise, and local knowledge of Colombia and Peru provided by Kandeo. The number of vehicles in AVIS Colombia, Peru, and Ecuador have increased 454%, 1,775%, and 39%, respectively, since the entrance of Kandeo. In addition, the company has improved operations in a variety of factors through the transfer of knowledge, both between Kandeo, and Maresa and the original operation in Mareauto Ecuador, as well as in between the three countries thanks to the unification of the region. Furthermore, the regional operation has created important economies of scale that grant the company improved bargaining power with suppliers.

The company has already begun to see improved uptake in the market in terms of utilizing the full service leasing model, and expects for this trend to continue, especially considering the recent favorable legislation regarding the taxation of assets in leasing and renting. The partnership has plans to continue expanding the number of vehicles significantly and optimizing operations throughout the region. Both parties are very optimistic about the outlook of the project and are expecting a very attractive exit opportunity in the coming years.

ESG IN FOCUS

Kandeo has worked with Mareauto AVIS over the last year to win two grants from MEDA, an international economic development organization, to support the development of innovative environmental projects. In Colombia, the project includes the installation of bypass oil filters that eliminate the need for oil changes and thus will conserve thousands of gallons of oil each year, as well as create significant savings in related expenses. In Ecuador, the project will install two automated, water-efficient car wash systems that reduce water use by 50% and run-off contaminates by 60%.

Mareauto AVIS has set an excellent example in social and environmental dedication in the region. The company has been involved in programs to recycle used tires, engine oil, and oil filters, and utilizes biodegradable fluids when washing vehicles. With the unification of the regional operations, the company will be expanding these environmentally friendly programs into Colombia and Peru. In addition, through their parent company, Maresa, they help to support various social programs such as the Mobility Program that offers transportation solutions for disabled persons, the REYPIN Foundation that provides education and therapy to children with special needs, and the Niños de Maria Foundation, which supports children from low-income families.

COMPANY NAME

Cafetalera NicaFrance
www.lacumplida.com

INDUSTRY / SECTOR

Agroforestry

LOCATION(S)

Nicaragua

DESCRIPTION

Cafetalera NicaFrance is a Nicaraguan agroforestry company, specialized in the production of high quality shade-grown coffee and timber for high-end applications. The company manages a 1,500 hectare farm – La Cumplida – which has 660 hectares of coffee trees, 115 hectares of timber production and 500 hectares of protected natural forest. Located in Nicaragua's Matagalpa region, La Cumplida is one of a small number of farms that combine coffee plantations with forestry operations.

INVESTOR PROFILE

Founded in 2012, Moringa is a Luxembourg-based investment vehicle that targets larger scale agroforestry projects with high environmental and social impact located in Latin America and sub-Saharan Africa. Moringa seeks projects that combine several sources of revenue, including agricultural, forestry and sale of carbon credits. Moringa was initiated by the Edmond de Rothschild Group and ONF International. The fund has partnerships with well-known research institutions, including the World Agroforestry Centre, the French agricultural research and international cooperation organization (CIRAD) and France's Institute of Development Research (IRD). Moringa is an impact investor and backs projects with a measurable social and/or environmental benefits.

DATE(S) OF INVESTMENT JANUARY 2015

AMOUNT US$13.3 MILLION

STAKE NOT DISCLOSED

FUND NAME

Moringa Fund

FUND SIZE

US$90 million

TOTAL AUM

US$90 million

OPPORTUNITY

NicaFrance was founded in 1992 by Clément Marie Ponçon, a leading advocate of agroforesty and coffee production in Nicaragua. Moringa saw potential to expand NicaFrance's model by transferring state-of-the-art technology to small and medium-scale properties close to La Cumplida. Because many of these farms have limited access to capital, equipment and advanced coffee varieties, Moringa and NicaFrance – together with CIRAD – saw the opportunity to create a coffee cluster to provide high-quality coffees to consumers in Europe, the US, and Asia. Genetic improvements of coffee varieties became essential following the increase in incidents of the rust disease and climate-related problems for the Nicaraguan coffee industry, which saw a 40% decline in production in the 2012/13 harvest season alone. This decline in production took a heavy toll on the country's economy and in some extreme cases, led to the abandonment of coffee plantations by farmers.

Introducing timber production offers an additional source of income to coffee farmers and reduces dependency on the coffee crop, which is naturally subject to swings in production and vulnerable to global price shifts. By improving farming techniques and due to the benefits of growing coffee under tree shade, there is a marked improvement in yields and coffee quality at these farms.

EXECUTION

NicaFrance already owned La Cumplida, the largest independent coffee farm in Nicaragua, covering over 1,800 hectares. In addition to providing capital to speed the execution of improvements on La Cumplida, Moringa's investment aimed to transfer production techniques used by NicaFrance to neighboring properties. To move ahead with the strategy, it was essential to bring the owners of small and medium properties together and convince them of the benefits of adopting new technologies and introducing new products. Many of these farmers have been facing significant losses from rust and have seen their livelihoods threatened. Convincing the local farmers to abandon their traditional coffee farming techniques was an initial challenge, but as farmers saw the result on test farms, they became more interested in joining the project. The process was facilitated by the partnership with CIRAD, which has developed rust-resistant coffee varieties. With the creation of this cluster of producers that use new varieties and farming techniques, NicaFrance will eventually be able to provide an estimated 5,000 tons of high-quality, certified coffee to roasters in Europe, the US, and Asia. These farms are also beginning to produce mahogany and other varieties of high-quality timber, which can be sold to furniture manufacturers and to the growing number of eco- lodges which are under construction in the region. Moringa also developed a model to finance small farms. The hiring of a CFO will also improve financial reporting and compliance, further strengthening the core business.

OUTCOME

Following the positive impact of introducing new coffee varietiesand agricultural techniques on the La Cumplida plantation, there has been a greater willingness by small farmers to sign onto the program. The introduction of these new varieties will contribute to reducing the vulnerabilities of farmers to drought and disease by creating more of a robust cluster of productive farms in the region. These producers are also benefitting from an extensive research program to develop highly productive disease-resistant coffee varieties which are of superior quality, allowing producers to receive premium prices. Coffee is one of the few edible commodities that can be stockpiled over longer periods without major degradation in quality, opening up potential for farmers to earn better returns for future deliveries instead of being forced to dispose of their beans on the spot market.

ESG IN FOCUS

Moringa's investment in NicaFrance has strong environmental and social elements. On the environmental side, the investment will result in the transformation of roughly 1,700 hectares of degraded land into an agroforestry-based coffee plantation. This project alone will contribute to an estimate 500,000 tons of CO_2 sequestration that would otherwise be released into the atmosphere, mitigating global warming impact. The project has also received certification from relevant players, including the Rainforest Alliance, Forest Stewardship Council (FSC) and UTZ, which is the largest sustainability program for coffee, cocoa and tea in the world.

Because these investments are significant– up to US$4,000/hectare – and production from the new varieties of coffee trees and timber does not begin until year four or five, NicaFrance guarantees revenues during the coffee plant maturation period. Eventually, the project will provide higher incomes to growers, reducing poverty in the region. In the future, many of these small farmers, who were the most vulnerable to losses from disease, will have access to better genetic material. Likewise, the program will create up to 6,000 permanent and seasonal jobs. Moringa is also supporting the Matrice Project, an agroforestry technical assistance program which builds on NicaFrance's platform and involves major development and research institutes. The ultimate goal is to replicate this project in other regions that are suffering from issues such as the rustdisease and climate change and to expand to other agroforestry systems, such as cocoa and cattle.

COMPANY NAME

Crédito Real

www.creditoreal.com.mx

INDUSTRY / SECTOR

Financial Services (Consumer credit)

LOCATION(S)

Mexico

DESCRIPTION

Crédito Real is a financial institution in Mexico, focused on consumer lending. Crédito Real has a a diversified and scalable business platform oriented primarily on payroll-deductible loans, durable goods loans, small business loans, group loans and used car loans. Crédito Real offers products mainly to the low and middle income segments of the population, which historically have been underserved by other financial institutions.

INVESTOR PROFILE

Founded in 1995, Nexxus Capital is the largest independent private equity firm in Mexico. Nexxus targets midsized Mexican companies with high growth potential whose value can be enhanced through improved management and operations, acquisitions and application of modern business models. Nexxus has raised five funds since inception and has invested in 18 different portfolio companies, five of which exited via IPOs on the Mexican stock market.

DATE(S) OF INVESTMENT NOVEMBER 2007

AMOUNT US$24.7 MILLION

PARTICIPATION/STAKE 22.51%

FUND NAME

Nexxus Capital Private Equity Fund III

FUND SIZE

US$146.2 million

TOTAL AUM

US$1 billion

OPPORTUNITY

Nexxus identified the consumer credit segment is an area of the Mexican economy that was underdeveloped. Large parts of the population did not have access to basic banking services, which created repressed demand for credit, especially among lower income groups. As a result, the non-bank financing industry in Mexico was experiencing rapid growth, but still had considerable potential to expand. It was an extremely fragmented industry, offering significant potential for consolidation.

Nexxus identified Crédito Real as a company that was well positioned to take advantage of credit deepening trends in the country. Likewise, Nexxus sought a company that could specifically capitalize on the market potential in payroll deducted loans. At the time of Nexxus' investment in Crédito Real, this was a very unprofessional segment that lacked transparency. Many of the loan originators were mom-and-pop operations without corporate governance. Nexus recognized a gap in micro-lending in Mexico, following the model of the Grameen Bank, which uses a group-based credit approach – typically targeting women – which helps ensure that borrowers will repay the loans. This model offered the opportunity to reach a big group of the Mexican population – largely rural – that did not have access to credit and lacked access to even basic financial services.

EXECUTION

Once the deal closed, the primary focus was on consolidating and diversifying the company's operations in the consumer credit space. At the time of the acquisition, payroll deducted loans represented a small percentage of the company's operations. Nexxus focused on expanding this and giving it more legitimacy. Efforts involved strengthening the origination process, which was one of the weaknesses of the segment. During the first two years after the investment, Crédito Real acquired minority stakes in the top three loan originators with the goal of enhancing the company's capacity to grow through partnerships. Nexxus helped to develop a micro-lending strategy, putting in place a management team to develop and grow that business. It was a complex process, because much of the financing is very short term and geographically decentralized. For the business to be successful, Nexxus needed to help develop a network of promoters to organize and manage these groups.

In an effort to improve transparency and corporate governance, Nexxus appointed a CFO, who significantly improved the reporting process. Nexxus worked closely with the board of directors to design and implement a compensation plan based on performance. The plan included a pre-IPO stock option, which helped the company attract and retain talented executives.

OUTCOME

In 2010, Crédito Real tapped into international debt markets with the issuance of a US$210 million in bonds on the US market, which marked a key milestone for the company. Following the bond issuance, Nexxus began preparing Crédito Real for an initial public offering. Although the IPO served as a partial exit for Nexxus, the bulk of the money raised – nearly US$174 million – was used to strengthen the company's capital structure as well as to finance acquisitions. Since then, the company has continued to perform well both financially and on the stock market. When Nexxus completed its exit from the company in December 2012, the IRR for the investment was 26% in US dollars and 30% in Mexican Pesos. Likewise, the MOIC reached 4.3 times in Mexican Pesos and 3.7 times in US dollars.

ESG IN FOCUS

In addition to improvements in governance, Crédito Real played a significant role in the growth and development of important consumer credit instruments that specifically benefited underprivileged segments of the Mexican population. The micro-lending initiatives in particular were very successful, obtaining finance for predominately female entrepreneurs in rural areas. This had a large social impact and also helped spur development in poor regions of the country. Likewise, the payroll deducted segment – which also targets lower income groups – expanded lower-interest credit to workers who previously only had access to short-term, high-cost lines of credit. The rapid growth of the company also created jobs in the financial sector, with the company's number of employees increasing more than five-fold between 2007 and 2012.

COMPANY NAME
ALOG
www.alog.com.br

INDUSTRY / SECTOR
Data Center

LOCATION(S)
Brazil

DESCRIPTION
ALOG is a carrier-neutral data center provider in Brazil serving over 1,500 customers across its four data centers in São Paulo and Rio de Janeiro. The company's focus is providing co-location and managed hosting to middle market and corporate customers.

INVESTOR PROFILE
Riverwood Capital is a private equity firm that invests, supports, and helps to scale growth stage technology companies globally. Riverwood is active in the technology sector in Latin America. Normal investment size ranges from US$25 million to US$125 million.

DATE(S) OF INVESTMENT APRIL 2011

AMOUNT US$61 MILLION

PARTICIPATION/STAKE 38%

FUND NAME
Riverwood Capital Partners I (RCP I) along with other Riverwood managed vehicles

FUND SIZE
US$781 million (RCP I)

TOTAL AUM
US$2.5 billion

OPPORTUNITY

The data center market had seen significant growth in Brazil because of the increased use of cloud computing, and local data processing and storage, as well as increasing broadband and mobile connectivity. Riverwood identified the need for high quality carrier-neutral data center capacity in Brazil and saw that there was a mismatch between the demand and capacity for these services available on the market.

Back in 2011, ALOG was already an established player in the market with two existing data centers and was in the process of building out a new data center located in the São Paulo metropolitan area. ALOG's new data center was one of the largest and most advanced facilities under construction at that time in the market. At the same time, global data center provider Equinix was seeking to enter the Brazilian market. Equinix was seeing demand from its global clients for services in Brazil, which was one of Equinix's largest gaps in its global footprint at the time. Riverwood saw an opportunity to partner with Equinix and the ALOG management team to try to build the leading data center company in the region. The partnership represented a compelling opportunity for all parties, given the combination of: (i) Riverwood's history of executing transactions and scaling businesses in the region, (ii) Equinix's knowledge of the data center business and growing global customer base seeking to expand into Brazil, and (iii) an ALOG management team poised to rapidly grow the business.

EXECUTION

While ALOG had become a profitable and growing business, Riverwood and Equinix saw an opportunity to invest more aggressively in the business to drive organic growth and establish ALOG as the leader in the market. Over its history, the ALOG management team built the business in a fairly capital constrained environment and installed robust processes and procedures throughout the organization grounded in achievement of return on capital targets. Upon investment, Riverwood and Equinix worked with the management team to accelerate off of this strong foundation to be the clear #1 player in the data center co-location and managed hosting markets. The plan involved accelerated capital investment in new and existing data centers, divestment of a non-core SMB hosting unit, establishing ALOG as a key point of interconnection in certain industries, and also leveraging the expertise and global customer base of Equinix as a partner. Riverwood was instrumental in devising the strategic roadmap, implementing proper incentives for the existing management team through the creation of an equity plan, assisting management in obtaining ALOG's first significant long-term debt financing, and helping the company to strengthen its banking relationships.

Over the course of the following three years, the company implemented and executed the strategic plan and was able to rapidly expand and become a leader in the market. An effective commercial strategy coupled with the differentiated infrastructure ALOG was bringing to the contributed greatly to its success. In addition, the company's success was in part a result of a culture that had been instilled in the company by its founder and its partners, which focused very closely on a framework grounded in return on capital.

ESG IN FOCUS

ALOG had basic corporate governance in place, but following the investment, there was a concerted focus on improving governance to drive accountability. This was especially important because, while Equinix was always seen as the likely buyer, the decision-making process needed to consider first and foremost the best interests of ALOG. This required establishing robust internal control, compliance policies and setting a strong board of directors. On the environmental side, the company implemented an aggressive energy savings plan which focused on reducing costs and raising environmental awareness. The company's data center in Rio de Janeiro installed a rain water utilization system which reduced water consumption by an estimated 70%. The company also invested in several Green Data Center initiatives.

OUTCOME

The original partnership between Riverwood and Equinix gave both parties an ability to force a liquidity event for Riverwood and the management team at certain periods of time beginning three years after the investment. Given the strategic nature of the investment by Equinix, the most likely pathway for Riverwood to get liquidity on the investment was for Equinix to acquire 100% of ALOG. In 2014, Equinix acquired the remaining shares of ALOG, including Riverwood's 38% stake in the company. Despite a significant depreciation of the Brazilian Real, the investment generated a 40% IRR and a MOIC of 2.8 times in US dollars. In Brazilian Reais, the effective IRR was 56% and the MOIC was 3.9 times. The investment also provided valuable experience working with a strategic investor. The partnership with Equinix proved to be extremely valuable, providing customer access, technical advisory, and invaluable data center management and development experience. While the possibility existed for misalignment of incentives along the way, all stakeholders worked together constructively to devise a governance structure that would ensure maximizing the value of ALOG as a stand-alone enterprise.

COMPANY NAME
Confidential

INDUSTRY / SECTOR
Agribusiness (Blueberry Cultivation)

LOCATION(S)
Chile

DESCRIPTION
The Company is a blueberry production farm that has 64 hectares under production. The farm is located near the city of Temuco in Chile's 8th region. The farm was designed to produce high quality fresh blueberries for the export market.

INVESTOR PROFILE
Founded in 2004, Sembrador focuses on developing innovative agriculture-oriented investments, with the goal of narrowing the gap between agriculture and the capital market. The fund also seeks to build a critical mass of innovative investments that reflect the potential of modern agriculture. The fund's partners seek to add value to portfolio companies through new products, processes, new locations or using new technologies that can be applied to agriculture, coupled with modern management practices.

DATE(S) OF INVESTMENT JANUARY 2007

AMOUNT US$1 MILLION

PARTICIPATION/STAKE 50%

sembrador

FUND NAME
Crecimiento Agricola

FUND SIZE
US$12 million

TOTAL AUM
US$68.5 billion

OPPORTUNITY

Sembrador's mandate is to implement the venture capital and private equity model for agriculture. The goal is to create farms that use state-of-the-art technology and meet increasingly stringent global product demands. This means producing safe food in an environmentally and socially sustainable way. The fund typically targets fruit production, because it tends to be more profitable and high-quality fruit tends to receive a significant market premium.

Sembrador saw The Company as an opportunity to apply this model. There was strong global demand for blueberries and consumers are willing to pay a high price for good quality blueberries. Chile also has an advantage because its harvest season is the opposite from the Northern Hemisphere, which allows producers to provide fruit to the main consumer markets during periods that the locally grown product is more scarce. The Company was also uniquely placed to take advantage of demand from Asia and especially China, which has high demand for the product during the Chinese New Year holiday, when blueberries are often given as a gift.

EXECUTION

Once Sembrador identified the growing global demand for blueberries, especially in the Asian market, the fund located a property in Temuco, in Chile's 8th Region. This is a poor region of the country and Sembrador believed that in addition to the positive outlook for demand for the fruit, there was also the potential to have a positive social impact on the region. Sembrador purchased a 50% stake in the property and planted 64 hectares of blueberries. The fund used several blueberry varieties which would be harvested during a three-month period between January and March. This not only allowed the company to take advantage of global demand during a longer period, but also meant that workers would be employed for a longer period of time. The fund worked closely with farm management to help introduce new agricultural techniques and to instill a more worker-friendly culture. Because the farm needed to hire as many as 1,000 workers for each harvest, it was essential that it be able to offer the best possible working conditions to guarantee that there would not be labor shortages. The fund also invested in a modern, drip irrigation system which monitors temperatures and moisture in the soil. The irrigation systems helps to guarantee high yields and also to reduce the risk of frost. Other farms in the region that do not have this system run the risk of frost damage during the flowering period.

OUTCOME

Sembrador sold its stake to an international investor in 2013. The acquisition process was facilitated by the high quality of the blueberry production, which had a solid track record. However, The Company's corporate governance and the accounting standards also allowed Sembrador to receive a premium return for the asset. During the due diligence process, the buyer was impressed by the lack of labor or accounting liabilities, which are typical in agriculture companies. The quality of the firm's governance practices increased the attractiveness of the investment for the strategic buyer. On a broader level, by introducing agricultural best practices, Sembrador has noted changes in the cultivation methods used on neighboring farms. By taking the initial risk of investing in a new region or product, Sembrador has seen several occasions where this has a domino effect on other producers in the region, who then see the advantages of sustainable agriculture and investments in technology.

ESG IN FOCUS

In addition to investments made in technology, Sembrador also incorporated best practices in terms of the hiring and working conditions of its workers, many of whom are women and are the main breadwinners for their households. This is one of the reasons that the fund is backed by the Chilean government and the IADB's Multilateral Investment Fund. Sembrador also used International Financial Reporting Standards (IFRS), which is practically unheard of in the agriculture sector in Chile. The farm also offers extensive training to its employees, which has a broader development impact. On the environmental side, the farm maintained a native forest in an effort to preserve local flora and fauna.

COMPANY NAME
Flex Contact Center
www.flexcontact.com.br

INDUSTRY / SECTOR
Telemarketing and Collection Services

LOCATION(S)
Brazil

DESCRIPTION
Flex Contact Center operates in the customer relationship management sector, providing CRM services, telemarketing and collections services for large Brazilian corporations. The company began operating in 2009 in Florianopolis, Santa Catarina and has expanded to more than 12 sites with over 10,500 employees. Flex acquired RR Cobrança in July 2015 to expand in the collections services segment. Its clients include Brazil's leading banks, pay TV companies, retailers, insurance companies and credit card operators.

INVESTOR PROFILE
Founded in 1999, Stratus focuses on mid-market companies with annual sales revenues typically of US$30 million to US$200 million. It seeks companies whichcan be used as consolidation platforms, as well family owned businesses that are seeking to move toward more professional management.

DATE(S) OF INVESTMENT DECEMBER 2014

AMOUNT R$50 MILLION

PARTICIPATION/STAKE 35%

FUND NAME
Stratus Capital Partners

FUND SIZE
US$120 million

TOTAL AUM
US$150 million

OPPORTUNITY

Stratus identified the call center segment as a fast-growing industry with both strong organic growth and potential for consolidation. The industry is very fragmented and with the presence of many small companies with potential for improvements in management and governance. Flex had a strong track record – with only five years on the market, it was already one of the tenth largest companies in the industry and had growth in the high double-digits, despite the adverse economic climate.

Flex had initiated the process of expanding from the state of Santa Catarina to other parts of Brazil and was seeking an investor to help speed this growth process. In addition to regional expansion, the company was also preparing to expand its focus into other related segments, including technical support and collections. Stratus was also attracted to the company's low cost structure, with operations in areas that have relatively low living costs, but high quality labor. Because it is a scale business, Stratus saw the opportunity to help Flex develop a pipeline of acquisitions and to identify sub-segments in the industry with strong growth potential. Stratus also recognized the quality of the entrepreneurs managing the company, including one shareholder who already had experience with private equity investment in a previous company. In this sense, the interest of the shareholders – to expand market share and grow revenues with the goal of eventually selling the company – were very much in line with Stratus's interest as a financial investor.

EXECUTION

Stratus initially focused on developing a pipeline of acquisition targets. Less than eight months after the investment was completed, Flex announced the acquisition of the RR Group. The RR Group allowed Flex to expand into the credit and collection industry. RR had two call centers in São Paulo and operates in all stages of collection across the market with teams specialized in personal credit, mortgage, auto loans, payroll loans, and credit cards. Its clients include Brazil's main banks and financial institutions, credit card issuers and insurance companies. This acquisition doubled the size of the company in terms of revenue and EBITDA. For Stratus, both companies have similar corporate cultures and have grown rapidly in recent years, making them a good fit.

Stratus was also involved in taking proactive steps to maintain the business's margins after the federal government announced it would roll back payroll tax breaks for labor-intensive industries announced during President Dilma Rousseff's first term. As a counter measure, Stratus played an instrumental role in adapting Flex's cost structure to the higher tax obligations. Flex has initiated conversations with its clients to discuss how to decrease their service level agreements without having a significant impact on the level of customer service.This has resulted in a win-win situation, lowering costs for Flex but also reducing the need to pass higher costs along to their clients. To help further integrate the strategies of the two companies, Stratus has also created a board of directors with an independent member. The company's financial statements are audited quarterly by a big four auditing firm.

OUTCOME

With the acquisition of RR Group, Flex is well positioned to become one of the market leaders in the call center business. The new company's revenues are expected to reach R$450 million in 2015, up from R$187 million in 2014. Because the call center segment is defensive, posting high growth even in times of economic slowdown, Stratus expects to expand revenue 4.5 fold through 2018. The company's efficient structure will also help it to maintain margins despite the economic recession in Brazil. For example, the company's new facility in São Paulo, which began operating in September 2014, has a lower cost structure because it negotiated tax benefits with the municipal government as part of a program to attract businesses to the less affluent eastern part of the city. In addition to the tax benefits, the company is able to draw from a large pool of available labor while improving the quality of life of the workers, who have much shorter commute times. In the future, Stratus is confident that the company will be an attractive acquisition target for either a strategic investor or a larger private equity fund. To prepare for this process, Stratus considers to list the company on the Bovespa Mais, the access market of the São Paulo stock exchange.

ESG IN FOCUS

Stratus has helped to further promote many of the positive labor-oriented initiatives that were in place at Flex and to expand them to all of the company's units. One of the key initiatives focuses on young people entering the workforce. Over 60% of the employees are between 18 and 25 years old and over 70% are female.

The company also has a partnership with Anhembi-Morumbi University (part of the Laureate International Universities) to provide opportunities for professional development. Flex has already negotiated a low tuition rate from the university, but also pays a percentage of the tuition. Additionally, Flex has partnered with many of its clients to contribute to the tuition subsidies. Likewise, because most of the courses offered are distance learning, Flex has a dedicated space in its call centers where student can use computers to do their course work. The program has been so successful that it is being used as a pilot by Anhembi-Morumbi at other businesses.

In addition to offering these benefits to the company's employees, Flex also offers significant tuition discounts to the employee's family members. This has not only played an important role in improving the training and skill levels of its employees, but has also contributed to employee retention.

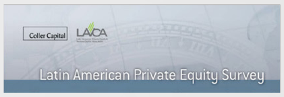
ABOUT LAVCA

The Latin American Private Equity & Venture Capital Association (LAVCA) is a not-for-profit membership organization dedicated to supporting the growth of private equity and venture capital in Latin America and the Caribbean. LAVCA's membership is comprised of over 170 firms, from leading global investment firms active in the region to local fund managers from Mexico to Argentina. Member firms control assets in excess of US$60b, directed at capitalizing and growing Latin American businesses. LAVCA's mission is accomplished through programs of research, networking forums, investor education seminars, and advocacy of sound public policy.

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.

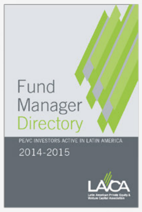
LAVCABase
The Latin American Investor Network, is the only comprehensive online database of Latin America private equity and venture capital fund managers. System updates are made ongoing.



Coller Capital/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.

The Latin America PE VC Report
The Latin America PE VC Report is the official newsletter of the Latin American Venture Capital Association.

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



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 Latin American PE Deal Book & ESG Cases
The Latin American Private Equity Deal Book & ESG Cases is a 27 page report profiling 13 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.

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Latin American Private Equity & Venture Capital Association

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