

THE **LATIN AMERICAN**
PRIVATE EQUITY
DEAL BOOK & ESG CASES



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INTRODUCTION

The increasing importance of Latin America and other emerging markets has been the defining trend for the private equity (PE) industry over the last decade. Global private equity firms have become far more active in the region, and local firms are seeing an unprecedented level of interest in their activities. While 2014 has been marked by continued deceleration of economic activity in many Latin American countries, PE activity in the region remains robust, with evidence of new fund-raising, successful investments and strong returns.

Indeed, despite a challenging macro environment, the thesis for continued investment in Latin America remains intact. In many ways, it is stronger than ever. Solid income growth, which has led to increased purchasing power of the middle class, is yielding new economic development. And despite an influx of capital to the region in recent years, PE penetration remains low, providing ample attractive opportunities for investors with clearly articulated strategies and value-adds.

Geographically, the increasing numbers of investments in the Andean region exemplify the continued growth of PE and the expansion from the larger economies of Brazil and Mexico. With a wide range of opportunities and attractive valuations, these countries are gathering increasing attention from GPs and LPs.

The result is that we are amid an exciting period in the development of Latin American private equity. Entrepreneurs and family business owners are becoming increasingly familiar with the benefits that working with PE can provide. Far more than a passive source of capital, PE in Latin America is a partnership with management and owners to foster a company's growth, facilitated through proper alignment of incentives between key stakeholders. Firms instill professionalization, good governance practices, financial discipline, and bring expertise and access to capital market resources that companies would be hard pressed to access on their own.

LAVCA and EY are proud to present the following report, which documents, through a series of case studies, the many ways that PE firms create and preserve value in the companies with which they partner. Over the last several years, Latin America's PE firms have become increasingly sophisticated in their value creation strategies, adding value in new and innovative ways. These case studies provide compelling evidence of an industry that continues to mature as it becomes an increasingly integral component of Latin America's economic landscape.

– EY

COMPANY NAME

Acurio Restaurantes
 www.astridygaston.com
 www.lamarcebicheria.com

INDUSTRY / SECTOR

Out-of-Home Dining / Restaurants

LOCATION(S)

Headquartered in Peru with restaurants throughout Latin America, North America, and in Spain

DESCRIPTION

Acurio Restaurantes is a Peruvian restaurant operator founded in 1994 by Peruvian celebrity chef, Gaston Acurio. Over the past 20 years, the company has launched casual and fine-casual restaurant concepts to serve specific market niches, and always focusing on Peruvian cuisine. The company operates 42 restaurants around the world, either directly or indirectly, under various brands including La Mar, Tanta, Madam Tusan, Papachos, Chicha, Panchita, Bachiche and Astrid & Gaston.

INVESTOR PROFILE

The Abraaj Group is a private equity firm that focuses on global growth markets. Over the past ten years, Abraaj has made 200 investments in 50 countries. Typical equity transactions range from US\$10 million to US\$100 million. Abraaj has an active portfolio in Latin America, with 10 holdings in the region across a wide range of industries, including consumer goods and services, travel and tourism, information technology, and leasing and financial services.

DATE(S) OF INVESTMENT	JULY 2012
AMOUNT	UNDISCLOSED
STAKE	SIGNIFICANT MINORITY



FUND NAME

Aureos Latin American Fund I

FUND SIZE

US\$184 million

TOTAL AUM

US\$7.5 billion

OPPORTUNITY

In recent years, Peruvian cuisine has taken the global market by storm and Peru is increasingly becoming a destination for culinary tourism. This trend has in part been due to the country's most famous chef, Gaston Acurio, one of the founders of the Cocina Novoandina movement. Since opening his first restaurant in 1994, Gaston Acurio has been slowly expanding his franchise, opening restaurants under several different brands, all of which are controlled by Acurio Restaurantes.

For Abraaj, Acurio Restaurantes fit into its investment thesis for the region, which targets companies that can capitalize on growing middle class demand for quality goods and services. Abraaj also saw the international growth potential of the company given the increasing popularity of Peruvian cuisine globally. Although the company began the professionalization process in 2005 when Acurio hired a business manager to run the operations of Acurio Restaurantes, by 2010, Acurio was seeking to scale-up operations and to expand globally.

Abraaj fund managers were originally introduced to Acurio by their local network of contacts and made an offer using a flexible structure that combined equity with convertible debt to avoid a significant dilution for the controlling shareholders. The offer was initially rejected, but two years later, after continued talks and a process that allowed Acurio to gain confidence in Abraaj, the deal was closed.

EXECUTION

Abraaj was able to lend its expertise on the financial side, “Gaston is a chef, but he’s also an entrepreneur and he had a solid management team working for him,” said Hector Martinez, the head of Abraaj’s Peru operations.

To further strengthen the company, Abraaj created a board of directors including independent members with experience in retail and consumer goods. Abraaj also played an instrumental role in hiring a new CFO, creating the position of COO, and helping the company to develop a long-term strategic plan combined with more regimented, long-term financial planning. With the capital injection from Abraaj, Acurio Restaurantes was also able to speed up its growth process. The initial focus was on helping the company to expand its operations domestically in Peru, with a concentration on more casual dining venues (Tanta, Papacho’s and M. Tusan).

Since the investment, the company has opened five additional restaurants in the country and is planning to open four more during the remainder of 2014. Additionally, there has been a growing focus on international expansion of Tanta and La Mar: In addition to a La Mar restaurant in San Francisco, Acurio Restaurantes has recently opened a Tanta in Chicago and a La Mar in Miami. Along with its US expansion plan, which will include at least two more openings, the company has identified ten other cities around the world where it plans to open restaurants, including London and Dubai in 2015 and several in Asia the following three years. This expansion will take place through partnerships, franchises and licenses with hotel operators.

OUTCOME

Since Abraaj’s investment, Acurio has seen not only its revenues grow, but also its presence in regional and international markets. During 2014, Acurio plans to open 13 restaurants in both the local and international markets. While Abraaj would not comment on any exit plans, Acurio and Abraaj agree that, “In a perfect world, one day Acurio would be publically-listed on the Peruvian stock exchange to allow all Peruvians to own a piece of a Peruvian cultural icon,” Martinez said.

ESG IN FOCUS

As part of Acurio Restaurantes’ broader strategy of promoting Peruvian cuisine, the company has created several environmental and social initiatives that aim to help the community and provide value to the local culture. Although Acurio was already a strong advocate of local sourcing of agricultural products and fish, as the company grew, these initiatives became more institutionalized.

Recently, the company forged a strategic alliance to help promote native, high-quality products across a broader market within Peru. The company also promotes the use of lesser-known types of fish in an effort to reduce the consumption of over-fished species.

Perhaps the group’s most successful initiative has been the Pachecútec Culinary School, founded in 2007 and currently supported by a number of sponsors. The school is located in a low-income region of Lima and brings distinguished Peruvian chefs as well as top chefs from around the world to teach classes to its students. The school also teaches other restaurant skills, such as waiting tables and administration. Once the students graduate, they are placed in internships within the Acurio Restaurantes network.

Finally, the company has begun a pilot program in waste management, which focuses on reducing the amount of waste sent to landfill by the group’s restaurants.

COMPANY NAME

Aminoagro
www.aminoagro.agr.br



INDUSTRY / SECTOR

Fertilizer/Micronutrients

LOCATION(S)

Cidade Ocidental, Goiás, Campinas, São Paulo, Brazil

DESCRIPTION

Aminoagro is a manufacturer and retailer of micronutrient fertilizers in Brazil and a market leader in foliar fertilizers. Its products can be used for a broad range of crops such as cereals, grains, vegetables, fruit, and flowers. It has a factory located in the state of Goiás near Brasília and markets to farmers across Brazil. Aminoagro employs a team of over 60 agronomists who assist farmers to maximize productivity gains through specialty fertilizer application.

INVESTOR PROFILE

Aqua Capital was founded in 2009 with the intention of focusing on Brazil and the Southern Cone's fast growing agribusiness sector. The fund targets family-owned companies located outside of Brazil's large metropolitan areas in a broad range of agriculture-related sectors. Target companies have annual revenues of US\$30-200 million.

DATE(S) OF INVESTMENT

AUGUST 2013

AMOUNT US\$25 MILLION

PARTICIPATION/STAKE 86%



AQUA
CAPITAL

FUND NAME

Agribusiness and Food Fund I

FUND SIZE

US\$173.4 million

TOTAL AUM

US\$200 million

OPPORTUNITY

Prior to the Aqua Capital transaction, Aminoagro was family-owned and controlled by a shareholder and his eight siblings. The company, however, had a forward-looking CEO (Mr. Ricardo Carreon) who understood the need to find an outside investor to fulfill its growth potential. He convinced the family members that it was time to transition to a more professional management and that an outside investor was the ideal way to leverage the company's potential. After receiving the green light from the family, Mr. Carreon started a search process for a strategic investor for Aminoagro.

Aqua Capital was interested in Aminoagro not only because of its high quality portfolio of products and technology, but also because of the projected development of its sector. The company's factory is located in the center of Brazil's agricultural heartland in the state of Goiás and is an ideal platform for taking advantage of the fast-growing, highly fragmented specialty fertilizer market. Additionally, Aqua Capital considered the company to be managed below its potential given the controlling shareholder's preferences and approach, and was confident that by partnering with Mr. Carreon, the company would quickly capitalize on the huge growth potential of this sector.

The company ultimately received three offers. Although Aqua Capital's offer was lower, it was selected because of the fund managers' experience and expertise in the agriculture sector. It was also clear that Aqua Capital was willing to take an active role in the company's strategy and operations creating a strong team with Mr. Carreon. "We have the stamina and creativity for mid-market, family-owned companies that are based in rural settings – it's part of our culture," said Sebastian Popik, the founding Partner of Aqua Capital.

EXECUTION

At the time of the US\$25 million investment by Aqua Capital, the factory was operating at roughly 20% of its installed capacity. This meant that there was room for Aminoagro to grow its sales fivefold without needing to invest in new production capacity. Aqua Capital focused on revamping Aminoagro's salesforce, which it perceived as one of the company's greatest weaknesses. Within a short time, the size of Aminoagro's salesforce tripled, allowing the company to increase its revenues at a much faster rate. This process was supervised by Osmar Bergamaschi, who was appointed Operating Partner of Aminoagro by Aqua Capital after having spent two decades in senior executive positions at Monsanto, a publicly traded American multinational agrochemical and agricultural biotechnology corporation.

Following the investment, Carreon suggested that Aqua Capital move the company headquarters to São Paulo. Initially, Aqua Capital was skeptical about moving from Goiás, an extremely low-cost location. However, Aqua heeded Carreon's advice and the move played a fundamental role in the company's growth strategy, giving Aminoagro access to a pool of highly trained individuals, both on the business side and the technical side. The São Paulo state also has several of the country's leading universities for agronomy and other agriculture-related careers, which has allowed the company to expand its staff of agronomists to over 60 people.

On the management side, Aqua brought in a new CFO, COO (Paul Bergman, a former Aqua Director) and Sales Manager. This new team, together with the CEO, worked to implement financial planning systems, to develop new bank relationships, and to structure asset-backed financial alternatives.

OUTCOME

Aminoagro is still in its growth phase, delivering important gains over the previous year. Agribusiness is one of the areas of the Brazilian economy that has outperformed in the current low-growth environment, and Aqua Capital believes that there is still a lot of room for the company to expand its market share. "Because of the size of Brazil's agriculture sector, the market is practically limitless," said Popik. Although the possibility of acquisitions has not been ruled out, the focus of the company's strategy has been organic growth. Given Brazil's agriculture potential, Aqua believes that the most likely exit strategy will be via a strategic sale.

The most likely buyers are crop chemicals companies, international micronutrient companies, or global fertilizer firms looking to expand their presence in Brazil and across the region.

ESG IN FOCUS

Although Aminoagro had a high-quality CEO prior to Aqua's investment, the company lacked governance. Aqua Capital helped to create a board of directors as well as a series of management committees to implement the business plan. Starting in FY2013, the company had a full audit by one of the big four accounting firms.

Prior to the acquisition, Aqua Capital had a professional firm conduct a full environmental & social audit; gaps identified were considered manageable and a remediation plan was defined and set in motion immediately post-acquisition.

On the environmental front, the company is currently investing in "biological controls" which substitute chemicals for biological agents as a form of pest control. Biological controls typically use natural predators, such as insects, parasites, or pathogens, to control pests. Not only is this a lower cost method of pest control, but it is also less aggressive to the environment.

In aggressive competitive bidding situations, the winner isn't always the highest bidder, but the one that can best articulate their vision for the company, and back it up with a solid track record of partnering with companies to instill financial discipline and good governance. –EY

COMPANY NAME

Cetip
www.cetip.com.br



INDUSTRY / SECTOR

Financial Services

LOCATION(S)

Rio de Janeiro, Brazil

DESCRIPTION

Cetip is a central securities depository and clearing house for private, fixed-income assets in Latin America. It is also a custodian of over-the-counter derivatives, registration platform for car liens and processor of wire transfers in Brazil. The company offers registration, custody, trading and collateral management to over 15,000 financial institutions, including investment funds, brokers, lenders, lessors, mortgage lenders and insurance companies. Cetip had over R\$4.8 trillion in assets under custody as of June 30, 2014.

DATE(S) OF INVESTMENT

MAY 2009

AMOUNT US\$112 MILLION

PARTICIPATION/STAKE 32%



FUND NAME

Advent Latin American Private Equity Fund III L.P. (LAPEF III) & Advent Latin American Private Equity Fund IV L.P. (LAPEF IV)

FUND SIZE

US\$375 million & US\$1.3 billion

TOTAL AUM

US\$32.1 billion

OPPORTUNITY

In 2008, Cetip was undergoing a demutualization process, seeking to move from a non-profit organization to a profit-driven enterprise. The company's original plan was to pursue an IPO rather than look for a private equity partner, but it struggled with unfavorable market conditions and internal company challenges, including governance and management issues. The Board of Directors recognized that it needed a partner who could support Cetip in the demutualization process prior to pursuing an IPO on the Bovespa. Advent, having a track record in the sector from its investments in BondDesk and GFI, believed that the company had an opportunity to quickly leverage growth with the right management team and business plan. Prior to the investment, Advent spent 22 months getting to know Cetip, gaining an understanding of all the challenges and opportunities the company faced post-demutualization. Cetip was seeking an investor in 2008/2009 during the worst period of the global financial crisis, which made it difficult to find private equity investors with the appetite for a commitment of this size and complexity. Furthermore, while other funds were categorically shying away from derivatives markets, Advent was confident in the resiliency of Cetip's business during a tough macroeconomic environment.

Executing the investment proved to be even more of a challenge. Cetip had over 600 shareholders (primarily banks, brokerage houses, asset managers and insurance companies), and finding them and bringing them all together so Advent could present its offer required ingenuity and significant effort. Advent and Cetip set up a call center with senior members of their teams and spent weeks contacting all of the parties. Eventually, they managed to arrange a meeting in a local hotel auditorium. There, Advent presented its offer to the shareholders, who had the option of either accepting or rejecting the terms of the deal. However, for Advent to move ahead, it needed to acquire a

minimum 20% of the company. Cetip's Board of Directors had originally stipulated that Advent could not acquire more than 30%, but after 38% of the shareholders agreed to the deal, the Board allowed Advent ultimately to acquire 32%. The agreement was finally signed in April 2009, months after the process began.

EXECUTION

Advent's initial focus post-investment was to help transition the company into a for-profit enterprise and restructure the business, which enabled the successful implementation of a market-pricing model. The company hired an entirely new management team with a broad range of experience in the sector, including a new CEO, who was former CEO of Redecard; a new CFO and COO, both of whom came from the Bovespa; as well as a new Commercial & Products Officer. In addition to the Advent deal team members on the Board, Advent appointed Robert Slaymaker as a Board member. Mr. Slaymaker had recently served as CEO of BondDesk, an Advent portfolio company that had gone through similar challenges in prior years. The new management team immediately focused on professionalizing the company. One area that was in need of restructuring was product development. Before Advent's investment, there was a pipeline of hundreds of new products, but no criteria for developing them. After Advent became involved, investment in new products and technology increased from approximately 3% of revenue to 10%.

In October 2009, five months after the investment, Cetip listed on the Bovespa's Novo Mercado. Following the IPO, the company was able to move ahead with a more aggressive M&A strategy. In December 2010, Advent helped negotiate the acquisition of GRV Solutions for R\$2 billion (US\$1.2 billion), effectively doubling the size of the company in terms of revenue and EBITDA. GRV had 100% share of the car loan lien registration market and was an essential part of the market infrastructure, making it an attractive strategic asset for Cetip. Additionally, the two companies shared a similar client base, allowing for significant synergies.

EXIT

Advent's exit from Cetip took place in stages and in all cases was aimed at maintaining shareholder value. Advent sold 43% of its holdings in Cetip in the IPO and then sold another 21% in early 2011. It fully exited the company in July 2011, selling its remaining stake to Intercontinental Exchange (NYSE: ICE).

For the banks that rely on Cetip for services, the management change initiated by Advent resulted in a whole new portfolio of product options as well as added technological efficiencies. Likewise, the original shareholders that opted to retain their shares in Cetip profited from the turnaround of the company and its resilient share price. For Advent, the deal confirmed its belief in the need to establish a proper corporate governance structure, as it provided the protection Advent required to have a strong influence in the management of the business.

ESG IN FOCUS

Advent introduced board committees, which were responsible for management, remuneration and pricing, to make decision-making more transparent and inclusive. These committees included customer representatives and independent members to ensure a balance of interests.

To help develop an innovation culture, Advent implemented a competitive compensation policy with stock ownership and compensation that rewarded innovation, growth and customer satisfaction, underpinning a shared commitment to continuous improvement.

Rapid progress with Cetip's governance enabled the company to proceed with its long-planned IPO when market conditions became favorable just five months after Advent's investment. The strong demand from institutional investors underscored the appeal of Cetip's governance standards.

COMPANY NAME

Globant
www.globant.com



INDUSTRY / SECTOR

IT / Software

LOCATION(S)

Global operations with the majority of the employees in Latin America

DESCRIPTION

Globant is a global software services provider focused on emerging technologies, and is a provider of offshore software product development services from Latin America to the US and the UK. Globant combines the engineering and technical rigor of IT services providers with the creative approach and culture of digital agencies. The company retains more than 3,000 employees and has more than 20 delivery centers across 13 cities in Argentina, Uruguay, Colombia, Brazil, and the United States, supported by client management locations in the United States, the United Kingdom, Colombia, Uruguay, Argentina, and Brazil.

INVESTOR PROFILE

Riverwood Capital is a private equity firm that invests, supports, and helps to build and grow middle market technology companies globally. Riverwood is active in the technology sector in Latin America. Normal investment size ranges from US\$25 million to US\$100 million.

DATE(S) OF INVESTMENT

JULY 2007, NOV 2008, DEC 2010

AMOUNT US\$21 MILLION

STAKE 38%, REDUCED TO 23%
(POST SALE TO WPP AND POST IPO)



FUND NAME

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

FUND SIZE

(RCP I) US\$781 million

TOTAL AUM

US\$2.2 billion

OPPORTUNITY

In 2007, Globant was emerging as one of the few companies providing offshore software product development services from Latin America to the US and the UK. There was very strong market demand for Globant’s services, driven by increased interest in Latin America as an alternative destination for software product development and numerous high quality developers in the region operating at a relatively low cost, in a similar time zone, and offering cultural affinity and innovation skills. Despite its size, Globant had been founded and was operating as a global company from day one, focused on servicing international customers. Finally, the founders and management team had a strong track record in growing the business and increasing productivity, which translated to strong financial performance, a unique and stable customer base including various top tier global customers, and a very unique platform in Latin America for large international companies looking to outsource development capabilities. Riverwood met the founders in 2006 and was impressed by the quality of the company and its entrepreneurs. As a consequence of its strategy, +95% of Globant revenues were denominated in US dollars, from top customers in the US and the UK. Riverwood began talks with Globant at a moment in which the founding partners were faced with the dilemma of either selling their business or scaling it up. The backing from Riverwood played an important role in allowing the company to move ahead with this growth process.

EXECUTION

Following the Riverwood investment, under the leadership of its management team and with the active support from Riverwood, Globant began to refine its service offering to transform itself from a broad software developer to a company focused on emerging technologies, which included UX, consumer experience, mobile, gaming, and social media, among others. The strategy was to develop Globant into the global leader in the creation of software used to understand, communicate, and reach consumers, leveraging the skills of the human capital available in Latin America. Riverwood, together with the company's founders, took a long-term view of building the company into a global leader in creative, design-based software. To reach its goal, Globant needed to invest in growing a global sales team, in developing proprietary technology expertise, and becoming more professionally managed. As part of this process, it incorporated experienced global technology executives from companies such as Microsoft and Sun Microsystems, and expanded its commercial efforts to different regions in the USA. The company also invested in launching the first eight studios. These studios enabled the company to enhance the level of innovative, value added services for customers, which was key to the firm's revenue growth and customer referrals and satisfaction. The company also began diversifying its delivery operations outside of Buenos Aires, growing the delivery capabilities both organically and inorganically to cities in Argentina, Uruguay, Colombia, Brazil, and onsite in the US and UK. Globant and Riverwood also had to navigate the choppy business environment that resulted from the 2008/09 economic crisis. During that period, one of Globant's main clients decided to cancel most of the business. Although this resulted in several difficult months, it eventually made the company stronger, as it forced it to diversify its business, develop new client relationships, and improve its planning process. Although most of the growth was organic, Globant also built an M&A strategy upon Riverwood's investment, acquiring four relatively small companies, which allowed it to attain a new technology and enter new markets.

OUTCOME

From 2007 to 2012, Globant was able to grow organically at 30% to 50% per year, gaining new top-tier global clients and consolidating its position as one of the top companies in its area. This success helped to attract the attention of WPP, one of the top global advertising companies, as a customer and partner. In December 2012 the partnership with WPP was strengthened when it agreed to acquire a 20% stake in Globant for roughly US\$70 million. The transaction resulted in a 4.1x MOIC for the RCP I fund investment made in 2010 and 8.1x MOIC for the capital invested in 2007 and 2008. Eighteen months later, on July 18, 2014, Globant became the first Latin American software company to IPO on the New York Stock Exchange. The company raised US\$66 million at \$10.00 per share, which included some secondary sale by Riverwood and other shareholders, as well as primary proceeds for working capital and M&A. The company's shares began trading at US\$10.65 and were trading at US\$13.41 as of 3 September, up over 34% since the IPO.

ESG IN FOCUS

As Globant matured as a company, it established a corporate social responsibility initiative that drove significant actions including: culture of engagement with multiple stakeholders and society, education programs for needed students, employee engagement in social programs, and support to multiple non-profit organizations including an active role in the entrepreneurship ecosystem in Latin America. The Company also now issues an annual CSR report.

Upon the investment by Riverwood, Globant also implemented robust corporate governance standards with the goal of driving accountability and transparency, which helped the company to prepare its management team and staff for an IPO. Because of the global nature of the company, Globant and its shareholders spent a great deal of energy on preparing the company to meet the rigorous standards required for an IPO on the NYSE.

COMPANY NAME

Laboratorios Kendrick

INDUSTRY / SECTOR

Healthcare / Pharmaceuticals

LOCATION(S)

Mexico

DESCRIPTION

Prior to its sale to global pharmaceutical company Sanofi-Aventis in 2008, Laboratorios Kendrick was one of Mexico's independent pharmaceutical companies and a pioneer in the development and promotion of generic drugs.

INVESTOR PROFILE

Darby Private Equity was founded in 1994 by former United States Treasury Secretary Nicholas Brady. Darby has emerging markets private equity investing experience and on the ground presence in Asia, Central and Eastern Europe, and Latin America. The firm focuses on mid-sized companies in a variety of sectors, including financial services, manufacturing, media and consumer goods/ services. In 2003, Darby became a subsidiary of Franklin Resources, Inc., a global investment management organization operating as Franklin Templeton Investments.

DATE(S) OF INVESTMENT

JANUARY 2005

AMOUNT US\$10.1 MILLION

PARTICIPATION/STAKE 53.3%



OPPORTUNITY

Following a regulatory change in Mexico that favored the expansion of Mexico's generic drug market, Darby began actively seeking opportunities in this sector. At that time, Mexico had a generics penetration rate of around 6-7%, which was low even by emerging market standards, and Darby viewed this as a significant opportunity. After looking at several companies, Darby began talks with Laboratorios Kendrick, which was then a family-owned company with revenues of US\$20 million and US\$4 million in EBITDA. Although the company had a relatively small portfolio of generic drugs, Darby was impressed by its track record, growth history, and balance sheet. The timing of the investment also coincided with a generational shift at the company: the father, a founding shareholder, had a 53% stake and was ready to retire. His son, who owned the remaining stake, was concerned about the expansion of the generics market and specifically about competition from India. In fact, he saw the potential arrival of new competitors as the main threat to his business. The son had tried to convince Darby to buy him out, but the fund preferred to draw from his experience in the sector. Ultimately, the deal was closed with Darby acquiring the father's stake but working with the son to build the business.

FUND NAME

Darby Latin American Private Equity Fund II

FUND SIZE

US\$176 million

TOTAL AUM

Cumulative committed capital of over US\$3.6 billion

EXECUTION

Once the deal closed, Darby focused on developing a new business plan. At the time 70% of the company's sales were to the Mexican Government, and Darby identified a need to broaden these efforts into new markets (in part due to the challenges of selling to the Government). Sales to the Government are based almost exclusively on tender offers based on prices, which meant that if the company failed to win one of these tender offers, it might see its revenues decline abruptly. Given these limitations, Darby began working on expanding sales to the retail segment. Originally, the company focused on trying to convince doctors to prescribe generic drugs to their patients, but this model did not work as Mexican doctors traditionally did not focus on drug prices or the

affordability of the medicine. With the failure of this strategy, the company made the bold decision to hire a CEO from Procter and Gamble with expertise in consumer branding and marketing. Under his tutelage, Darby and the company established an incentives plan for sales people in the retail outlets where Kendrick's products were sold. Because employees of the pharmacies can recommend drugs, the company developed an incentives plan with the major pharmacy chains in Mexico whereby the employees were compensated for recommending generic drugs. The plan was so successful that by 2008 the company's sales mix was weighted toward the private sector, with 70% of sales, compared to just 30% in 2005.

OUTCOME

The success of Laboratorios Kendrick's sales model attracted the attention of other companies in the sector throughout the investment period, and on several occasions pharmaceutical companies made unsolicited acquisition offers. Although Darby convinced its minority partner that it was not time to sell, there was still concern about competition from Indian pharmaceutical companies. Four years after the initial investment, Darby decided that the company was ready to be sold. The disciplined and patient exit process was conducted on the ground by Darby's team in Mexico City, who had always been very involved in company management. By waiting for the right moment, the returns were significantly higher than they would have been if the company had accepted previous offers. Once the company was prepared, Darby hired a broker to take it to market. It invited 12 potential buyers, including local and international pharmaceutical companies to take part in the process. At that time, the company had revenues of US\$43 million, up from US\$20 million at the time of the investment, and US\$10 million EBITDA. Bidding for the company was competitive, especially because Laboratorios Kendrick's growth of market share had completely changed the playing field for the sale of generic drugs. Prior to Laboratorios Kendrick's growth, the Mexican pharmaceuticals market was inefficient and most "de facto" generic drugs were sold at high prices. When Laboratorios Kendrick came to the market and started selling its drugs at fair prices, it quickly eroded the market and margins for other players in the sector. Likewise, the sales model that was implemented was a major attraction for other companies. The company was eventually sold to Sanofi-Aventis in March 2009 for a gross IRR of 53.6%. In an indication of how successful the sales and marketing model turned out, several of the top executives of Laboratorios Kendrick ended up taking key positions at Sanofi, including the company's General Manager, who was appointed General Manager of Sanofi in Mexico following the acquisition.

ESG IN FOCUS

One of the key social aspects of this investment was that, through its aggressive expansion strategy, Laboratorios Kendrick played a key role in the dissemination of generic drugs at a more accessible price.

When Darby made the investment, generic drugs had roughly a 7% penetration, whereas today generics account for nearly 50% of the Mexican market. Likewise, Darby focused on improving key governance issues, which involved professionalization of the management team. This involved establishing a well-balanced corporate governance structure in which all parties' interests were aligned. It also involved the creation of management incentive packages that were directly linked to future financial compensation when the company was sold.

Finally, Darby also took steps to ensure that the company's facilities were compliant with the IFC's Environmental, Health, and Safety policies as well as all of Mexico's national, state, and local regulatory requirements.

PE firms are adept at identifying & transforming threats into opportunities, thereby creating value in situations where it was unexpected. This is a valuable benefit that PE firms can bring to their portfolio companies. –EY

COMPANY NAME

Lazus
www.lazus.com



INDUSTRY / SECTOR

Telecommunications

LOCATION(S)

Colombia, Panama, Costa Rica, and Peru

DESCRIPTION

Lazus (formerly known as Promitel) is a telecommunications infrastructure company, providing fiber optic networks for data, voice and video in Colombia, Panama, Costa Rica, and Peru. The company's network spans approximately 3,500 kilometers across 12 cities with a combined population of over 23 million people. Lazus provides services to multiple telecommunications providers.

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 (excluding E&P), telecommunications, social infrastructure, and airports. Ashmore Colombia is a subsidiary of Ashmore Group, a global emerging markets investment manager with over 20 years of experience. Inverlink, a Colombian investment bank and M&A advisory firm, is also a shareholder of Ashmore Colombia.

DATE(S) OF INVESTMENT

JANUARY 2013

AMOUNT US\$50.8 MILLION

STAKE 100% (62.5% ASHMORE COLOMBIA FUND I, 37.5% CO-INVESTORS)



FUND NAME

Ashmore Colombia Fund I

FUND SIZE

US\$170 million

TOTAL AUM

(Ashmore Colombia) US\$190 million

OPPORTUNITY

Ashmore Colombia has a strong relationship with natural gas transportation company Promigas, which owned telecommunications company Promitel, founded in 2001. Promigas entered the telecommunications sector and built a significant network over the subsequent decade exploiting the carrier-of-carriers model, in which a neutral (non-competing) third-party provides telecom infrastructure to telecommunications providers, thus reducing the cost to the providers. In this way the carriers do not need to each build their own network, but share a third party, state-of-the-art well-maintained network. Although Promitel showed great promise, the company was overlooked and under-invested as it was not part of Promigas' core business. Ashmore had studied the carrier-of-carriers model and was actively seeking opportunities in this segment. Ashmore Colombia's team recognized the significant growth potential of Promitel as new technologies, such as 3G and 4G, HDTV, and 3DTV would increase the demand for telecom infrastructure, and liked the high-entry barriers resulting from the large investments and the long "time-to market" required to build new fiber optic networks.

For these reasons, Ashmore approached Promigas in early 2012 with an offer to buy Promitel. After nearly one year of negotiations, Ashmore, jointly with co-investors, acquired 100% of Promitel in January 2013, subsequently renaming it Lazus.

EXECUTION

Once the deal closed, the bulk of the value creation was a result of funding Promitel's (now Lazus) growth strategy, empowering the existing management team and aligning their interests with those of shareholders through a compensation scheme which was designed to keep them engaged in the growth and expansion of the company and reward them for the increase in company revenues and profitability. As a Promigas subsidiary, Promitel had been unable to completely execute its growth strategy. Ashmore's plan was to give the management team power and resources to grow quickly. Among other initiatives, the management team received the green light to expand services into Lima, Peru, and into some medium-sized cities in Colombia. Ashmore Colombia also worked with Promitel's management to explore growth opportunities by providing other telecommunications services.

Although the buildout plan resulted in significant expenditure in the months following the close of the investment, the company still saw EBITDA growth of 19% between 2012 and 2013.

OUTCOME

Just six months after Ashmore Colombia made the initial investment, it was approached by Columbus International, a privately held telecommunications company, who proposed a joint venture with Lazus. Ashmore rejected the idea, due to concerns about conflicts of interest with other parts of Columbus' business. Shortly thereafter, the parties discussed the possibility of Columbus buying a 100% stake in the firm. After several months of negotiations, Columbus made an offer to pay almost two times the initial investment. Although this offer was of interest, Ashmore Colombia was concerned with granting Columbus key company information during the due diligence process without some kind of binding agreement, and therefore negotiated a binding share purchase agreement to be executed prior to the due diligence process. The share purchase agreement was executed in December 2013, less than a year after Ashmore had made the acquisition. The closing of the transaction occurred during Q2 2014, after Columbus performed due diligence and the Colombian and Costa Rican anti-trust authorities gave their approval.

For Ashmore, the investment in Lazus provided concrete confirmation of its business thesis that sizeable growth opportunities of non-core business operations within large conglomerates are often overlooked, in many cases because non-core operations are neglected by the conglomerate's management team. In such cases, there is a significant value creation opportunity that can be unlocked by acquiring them and offering support to the existing management teams.

COMPANY NAME

Maestro Locadora de Frotas
www.maestrofrotas.com.br

INDUSTRY / SECTOR

Auto Rental & Leasing

LOCATION(S)

Brazil

DESCRIPTION

Maestro was founded in 2007 and is a Brazilian corporate fleet management company, renting cars to corporations and providing fleet outsourcing. The company buys cars from auto manufactures at 18% to 25% below the list price, and when the client leases expire (after a contract period of between 24 and 30 months), it sells the cars to its network of used car dealerships.

INVESTOR PROFILE

Founded in 1999, Stratus focuses on mid-market companies with annual sales revenues of US\$30 million to US\$200 million and between 250 and 1,000 employees. Stratus also seeks companies which can be used as consolidation platforms as well as family owned businesses that are seeking to move toward more professional management.

DATE(S) OF INVESTMENT

OCTOBER 2011, APRIL 2014

AMOUNT R\$48.8 MILLION

PARTICIPATION/STAKE 77%



FUND NAME

Stratus Capital Partners

FUND SIZE

US\$250 million (target)

TOTAL AUM

US\$150 million

OPPORTUNITY

Prior to identifying Maestro as a specific target, Stratus identified fleet management as a high priority sector. Fleet management is extremely fragmented in Brazil, with over 2,600 companies, most of which are family owned. Furthermore, fleet management is not the core business of a substantial part of the companies in this sector. Instead, car dealerships, companies that provide a variety of B2B services (e.g. engineering), and even security companies get into this business as a compliment to their core operations. Despite these factors, this segment has seen average annual growth of nearly 12% over the past decade, in part because companies are increasingly interested in outsourcing the maintenance of their vehicles as a way of freeing up working capital and reducing down-time of the fleets.

After approaching several companies in this sector, Stratus began talks with Maestro, then owned by the Lewkowicz family, who owns several car dealerships in São Paulo. While fleet management was not its core business, the family entered the segment due to demand from its client base. Maestro had already started implementing a more professional management and operational structure, led by a family member, but in an effort to speed up this process and leverage growth, the family agreed to sell a controlling stake in the company to Stratus, through a primary injection of capital.

EXECUTION

Stratus' initial investment focused on helping the company accelerate growth through the expansion and modernization of its fleet, mainly via acquisitions. With a newer and larger fleet, the company was able to meet growing demand from its clients and to offer services to a broader range of companies. In 2012, the company saw a 50% year-on-year increase in its sales revenues, and in 2013 the year-on-year increase in its sales revenues was 25%.

Stratus also focused on improving the company's corporate governance and developing a more focused business plan. To improve accounting practices, Stratus brought in an experienced CFO who implemented quarterly audits of the company. With the increased level of financial transparency, Stratus was able to significantly reduce financing costs. Stratus also took advantage of its relationships with local financial institutions to broaden the company's access to credit.

OUTCOME

Maestro is still in a phase of rapid growth and consolidation and Stratus is not actively seeking to exit the firm at this time. In April 2014, Stratus invested a second tranche in Maestro, to continue the fleet expansion project, in addition to developing an internet sales platform to sell used cars. The company is selectively looking to grow through acquisitions as well. Stratus has been assisting the company in its search for takeover targets and also lends its expertise in the M&A process. Results have been very positive with EBITDA increasing 75% in 2013 and revenues increasing by 25%. The company has consistently been profitable since late 2013 and is preparing to deploy a new business plan that Stratus expects will help the company maintain its current growth rates without sacrificing profitability.

In the future, Stratus sees several exit opportunities for the company. Following the successful listing of Senior Solution, another Stratus portfolio company, on the Bovespa Mais, Stratus is considering listing Maestro on the same market. According to Stratus Founding Partner Alberto Camoes, there are many advantages to listing a company on the Bovespa Mais. The cost is relatively low, especially for a company that already conducts quarterly audits, as is the case of Maestro. For Camoes, once a company is listed, it becomes more visible to the market, which often results in unsolicited offers. Acquisition by strategic investors is also an option for Maestro and Stratus does not rule out the possibility that a foreign player interested in expanding into Brazil could be attracted to acquiring the company.

ESG IN FOCUS

Stratus created a board of directors with an experienced independent board member and was also instrumental in improving the company's accounting practices, including the addition of an independent auditor that performs regular assessments. The company has achieved the governance standards required to list on Bovespa stock exchange's over-the-counter market, called Bovespa Mais.

On the environmental side, Stratus has established a program that improves the practices of the company's suppliers, including independent automobile repair shops.

In a top-down analysis, investors understand the key issues of the sector before choosing the best company to invest in. –EY

COMPANY NAME

Medquímica Indústria Farmaceutica S.A.
www.medquimica.ind.br



INDUSTRY / SECTOR

Pharmaceutical Manufacturer

LOCATION(S)

Brazil

DESCRIPTION

Founded in 1975, and currently with over 500 employees, Medquímica is a mid-sized pharmaceutical company. The company has a diversified product portfolio, comprised of approximately 60 different solid and liquid drugs divided into OTC and Rx, both branded and generic. Medquímica's products are sold in all regions of Brazil, supported by a broad distribution network and significant presence in widespread wholesale and retail channels. The company has a state-of-the-art production facility in Juiz de Fora, Minas Gerais.

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

NOVEMBER 2011

AMOUNT US\$13.6 MILLION

STAKE MINORITY



FUND NAME

Graycliff Latin American Partners I

FUND SIZE

US\$120 million

TOTAL AUM

US\$1 billion

OPPORTUNITY

Graycliff Partners was originally introduced to the founding partner of Medquímica through the fund's network of contacts. Although Medquímica had seen rapid growth in previous years, the company was operating at 100% of its industrial capacity and was in need of a new production facility. The company's founding partner – who had built the company from the ground up – began exploring different financing opportunities to build the new plant and began negotiations with Graycliff. Graycliff was immediately struck by the high quality of the firm's founding partner. He had a long-term vision to sell the company, but understood that the new plant was a necessary pre-condition for the sale. He also understood the value of having a strategic partner, who could help bring the company's controls and governance standards to a level that would facilitate an eventual sale.

As a company that sells branded generics, Medquímica was a way to take advantage of Brazil's growing middle class and increased spending on healthcare, and medicine in particular. Although Medquímica is a mid-sized company, it owns one of the leading over-the-counter medications – Dipimed –the top selling painkiller in volume in Brazil. The main consumers of this medication come from the lower middle class, which has seen a significant boost in purchasing power in recent years. Likewise, Graycliff saw Medquímica as an excellent way to take advantage of the expanding market for generic drugs. Brazil is already the second largest consumer of generics among emerging market countries, its generics market has been growing by 15-17% in recent years, and will soon be the fifth largest market globally. Finally, Graycliff saw Medquímica as a solid, long-term growth story, due to demographic trends in Brazil and the aging of the population.

EXECUTION

Increasing production capacity was the number-one priority for both the founding partner of Medquímica and for Graycliff. The company had back orders equivalent to six months of supply and was eager to meet this repressed demand. To finance the construction of the plant, the founding partner contributed his own capital, demonstrating that his financial interests were in line with those of the fund manager. Because of the size of the company, it was important that the founding partner remain at the helm of Medquímica. However, Graycliff was instrumental in making changes to other top positions in the company in an effort to improve management team, accounting practices and transparency.

The company also modernized several processes and improved its long-term planning, such as in the area of credit concessions; Prior to these changes, the company granted credit to its clients based on relatively subjective criteria. With the new control procedures, there is a system in place to grant credit to clients, which has improved operations and overall transparency of the company.

The fund has also played an instrumental role in revamping the compensation scheme and instituting a system of stock option and variable compensation. With the new plant now fully operational in October 2013, production capacity more than doubled, with the possibility of additional capacity expansion without significant capital expenditure. As a result, the company has seen annual revenue growth of more than 20% in 2013 and 2014, and expects to more than double its revenue from 2011 levels by 2015.

OUTCOME

The Brazilian pharmaceutical industry is highly regulated due to the strict requirements for new drug development and portfolio license renewal. Medquímica has been proactive in this area and seeks to stay one step ahead of ANVISA, Brazil's Health Surveillance Agency, which is becoming increasingly rigorous and has imposed high compliance hurdles. Graycliff also estimates that it would take up to six years to build a greenfield plant and to gain drug approval. Due to these high entry barriers, Medquímica represents an attractive platform for an international pharmaceutical company seeking to enter the Brazilian market. Medquímica's diversified portfolio of products is already sold throughout Brazil, supported by a broad distribution network and significant presence in widespread wholesale and retail channels. Additionally, although Medquímica is a medium-sized company, it has an institutionalized management team and is able to meet the highest governance standards. For all these reasons, Graycliff believes that Medquímica would be an attractive acquisition for an international pharmaceutical company in the near future.

ESG IN FOCUS

In addition to improvements in governance, such as the creation of a board of directors and improvements in accounting practices, Medquímica has also made significant advances on the environmental and social side. The new industrial plant surpasses the already stringent requirements imposed by Brazilian environmental and regulatory agencies, and with the construction of the plant, Medquímica also built a new water and waste treatment facility.

On the social side, the company invests heavily in human resources and has internal training programs as well as multiple internal promotion opportunities. This has resulted in lower turnover among its staff.

Finally, the company has several initiatives that are focused on the city where the plant is located – Juiz de Fora, Minas Gerais – including sponsoring a marathon and a volleyball team.

COMPANY NAME

MMCinemas
www.cinemex.com



INDUSTRY / SECTOR

Entertainment

LOCATION(S)

Mexico

DESCRIPTION

MMCinemas is Mexico's second largest movie theater operator and enjoys a dominant position in second and third tier cities. At acquisition, MMC was a family-owned movie theater company with 605 screens, most of which were in Mexico's secondary cities with a strong presence in Monterrey. Only eight of the company's screens were in Mexico City.

INVESTOR PROFILE

Southern Cross Group has been investing in Latin America since 1998 in companies with revenues in the US\$50 million to US\$250 million range with high quality management teams, across a range of industries. Southern Cross has owned companies in Argentina, Bolivia, Brazil, Chile, Mexico, Paraguay, Peru, and Uruguay.

DATE(S) OF INVESTMENT

SEPTEMBER 2006

AMOUNT US\$20.8 MILLION

PARTICIPATION/STAKE 40.8%

SOUTHERN CROSS GROUP

FUND NAME

Southern Cross Latin America Private Equity Fund II

FUND SIZE

US\$219 million

TOTAL AUM

US\$2.9 billion

OPPORTUNITY

Southern Cross initially decided to target the movie theater industry due to a strong belief in the potential of Mexico's entertainment sector and as a result of significant consolidation opportunities. The Group took a non-consensus view of this sector, which at the time was out of favor for US and European fund managers. Southern Cross saw great potential in MMC not only because it could be used as a consolidation platform, but also because it identified that the company had strong potential to quickly scale up revenues via ancillary businesses, including concessions and on-screen advertising, which the founding shareholders had not developed. The then family-owned company had several other businesses, including media (print, radio, TV) and shopping malls, and was not particularly focused on value creation for MMC, which resulted in stagnant EBITDA for three straight years prior to the investment. After 18 months of negotiations, the family agreed to sell a 100% stake to Southern Cross, who syndicated the equity amongst other financial investors that assumed a minority role.

EXECUTION

Because MMC had been marginalized within its parent company and all of the decisions were centrally made by the owner, there was an extensive list of improvements that could be quickly implemented by the fund managers to leverage MMC's growth. Southern Cross recruited an experienced CFO, who implemented best practices in cost control to enhance effectiveness and efficiency and led the financing of an aggressive growth plan. "Although we brought in new talent, we fired nobody because the previous management team had a good understanding of the business," said Sebastian Villa, a Partner at Southern Cross.

The fund developed an ancillary business team to procure long-term agreements with food-stand suppliers and developed a highly successful on-screen advertising business, resulting in US\$3.8 million of additional EBITDA during the first year.

The company also began acquiring and building new theaters. Within the first 18 months, MMC began the construction of 29 new theaters, adding 202 new screens with leading positions in underserved markets. It also acquired three smaller competitors with complementary coverage that contributed an additional 111 screens. During this time the fund upgraded existing theaters, resulting in higher non-box office sales, increased ticket prices, and organized a screen-based loyalty program, resulting in one million new users and US\$2.6 million of additional EBITDA.

OUTCOME

The initiatives undertaken by Southern Cross enabled them to increase MMC's enterprise value by 71% in 18 months, growing revenues by 38% and EBITDA by 46%, and more importantly to create a major overhaul in the company's outlook. Within two years, MMC had emerged from a period of stagnation to become the second largest company in its sector in Mexico, with the leading market share in secondary and tertiary cities. Roughly two-thirds of the increase in value was created through new theaters and the remaining third was achieved via improving the existing operations.

The changes made by Southern Cross immediately showed results, and the company started to attract the attention of strategic buyers. Ultimately, in late 2007, Cinemex, the Mexican market leader, began negotiations for a buyout. The sale was eventually completed in February 2008 at a 66% IRR and 2.8 times multiple on invested capital. The investment reinforced Southern Cross's view of the importance of breaking from the investment paradigms of the day and trusting their internal analysis on the competitive dynamics in a specific market.

ESG IN FOCUS

Since the company was family owned there were several governance issues that needed to be addressed to transform it into a professionally run organization. This involved the creation of a board and the development of a clearer growth strategy for the company.

On the social front, in every single market the company worked with the public schooling system to give lower income children "a day at the movies." Students were taken backstage and then treated to a children's movie with popcorn and soft drinks, which was the first time many of the children had this experience.

COMPANY NAME

Nutrifrost
www.nutrifrost.com.ar



INDUSTRY / SECTOR

Food / Frozen Vegetables

LOCATION(S)

Argentina, Brazil

DESCRIPTION

Nutrifrost is a supplier of frozen vegetables to the Argentine and Brazilian markets. The company has a plant outside of Buenos Aires, sourcing vegetables from a local network of affiliated farmers. The company produces commodities products, such as frozen peas and corn, but also value-added dishes, such a prepared meals. It sells directly to retailers, via the “Maglia” brand, to foodservice companies, and on the international market via bulk trading.

INVESTOR PROFILE

Humus Capital Partners focuses on middle market companies in sectors with strong long-term fundamentals. The fund focuses on the Latin American agribusiness sector, including animal protein and frozen foods. Humus Capital Partners follows a strict active ownership approach, which involves dedicating substantial amounts of time and effort to working with the portfolio companies’ management teams to improve strategic direction, operating performance, commercial effectiveness, and capital utilization.

DATE(S) OF INVESTMENT

FEB 2011, FEB 2012

AMOUNT US\$11 MILLION AND US\$12 MILLION (FOLLOW-ON)

STAKE 50% AT ENTRY; 100% AFTER FOLLOW-ON INVESTMENT



FUND NAME

Humus Capital Agribusiness Opportunities

FUND SIZE

US\$30 million

TOTAL AUM

US\$30 million

OPPORTUNITY

Humus Capital Partners saw Nutrifrost as an ideal way to capitalize on changing dietary habits resulting from new demographic trends, while taking advantage of Argentina’s agricultural potential. The increase in the number of women in the workforce resulted in growing demand for foods that are both healthy and easy to prepare, such as frozen vegetables. Furthermore, Nutrifrost’s core markets – Brazil and Argentina – both have per capita consumption of frozen vegetables of around 0.4 kg per year, compared to 4 kg per year in neighboring Chile. Although the company already had a solid business plan, Humus Capital saw an opportunity to create the leading frozen vegetable company in Latin America and increase revenues through expanding its network of suppliers, improving the plant’s efficiency, and also trading the residual volumes that are packaged at the plant on the international market.

EXECUTION

Humus Capital’s first ten months as a shareholder in Nutrifrost were much like the initial period of any private equity investment: The fund focused on increasing the reliability of the company’s supply chain and improving industrial operations, as well as creating a retail brand for Nutrifrost’s products and establishing the commodities trading side of the business to increase margins. The implementation of these initiatives, however, was completely

interrupted in December 2011 when the company's factory was destroyed in a fire. Following the fire, the management team faced an entirely new set of challenges, which included filing for Chapter 11 and collecting insurance claims. "We were faced with challenges and there was no textbook to turn to," said Martin Otero Monsegur, a Founding Partner of Humus Capital. He added that the fund was considering writing off the company entirely, but the partners decided to persevere. The decision to move forward was in part due to the strong conviction that the original investment thesis was correct. The fund managers also received a great deal of support from their limited partners, many of whom are entrepreneurs. The LPs helped convince Humus Capital to move ahead with the reconstruction of the company, though it was immediately clear that it would take at least a year for the company to resume operations in its plant as reconstruction took place.

Once this process began, Humus Capital began negotiating with the original shareholders to buy the remaining 50% in the company and replace the entire management team. Humus Capital was responsible for managing the entire process of rebuilding the plant and developing a new business plan for the company, and maintaining its relationships with clients, suppliers, unions, and creditors. The initiatives were costly and the fund had to complete a new round of capital raising to inject into the company.

OUTCOME

Despite all of the challenges, the company successfully exited Chapter 11 in September 2013. The new plant is now fully operational; revenues grew three-fold in 2013 and are expected to double again in 2014. Although production has not yet reached the level that Humus Capital projected in its original business plan, the company has made significant progress and is back on track to becoming a regional leader in the frozen vegetables market. However, the company had to start from square one once the plant began operating, rebuilding relationships with both clients and suppliers. Likewise, what was originally an investment in a fully operational company has become much more of a start-up investment. This means that Nutrifrost will take longer to reach its growth targets. For Humus Capital, this unfortunate event taught the fund managers the importance of keeping an open and transparent communication with LPs. Despite the catastrophe, the fund's LPs remained confident in the fund managers and in the company and were willing to back them in subsequent rounds. The fire also taught Humus Capital Partners about managing companies under extreme circumstances. These skills are not imparted in business school and can only be obtained in a real life scenario. Although the process of rebuilding the company was often painful, the fund managers agree that the experience has ultimately enhanced their management skills.

ESG IN FOCUS

Humus Capital developed several social and environmental programs for Nutrifrost. The company has a program that offers highly flexible employment for local women who work in the plant. Because the processing of some crops – specifically corn – is highly seasonal, the company had a difficult time filling some of these positions. Following talks with local government officials, the company decided to create a program for at-risk women – many of whom are single mothers. The company not only offers training to these women, but also allows them to work flexible schedules to fit the time periods when their children are in school. The program has won several awards and has also given many women much-needed work experience and the opportunity to become wage earners.

The company has also invested in a water treatment facility for the plant, which has improved water quality and reduced the plant's environmental impact.

COMPANY NAME

Proenfar
www.proenfar.com



INDUSTRY / SECTOR

Manufacturing / Plastic Packaging

LOCATION(S)

Headquartered in Colombia with operations in Mexico and Argentina

DESCRIPTION

Proenfar operates in the plastic packaging industry in Colombia, having started operations over 60 years ago. It manufactures customized and plastic packaging and devices for the pharmaceutical and cosmetics industries in Latin America, and markets its products throughout Latin America and the Caribbean.

INVESTOR PROFILE

Altra was founded in 2005 with a focus on mid-cap companies. The fund targets companies in the Andean Region with special emphasis in Colombia and Peru. Since its inception, Altra has invested in nine platform companies and has raised over US\$500 million of equity commitments from a diversified group of investors, including leading public and private pension funds, funds-of-funds, family offices, sovereign wealth funds, endowments and foundations. The firm's operations are based in Bogotá and Lima.

DATE(S) OF INVESTMENT

MAY 2009

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 61.54%



FUND NAME

Altra Private Equity Fund I

FUND SIZE

US\$104 million

TOTAL AUM

US\$485.1 million

OPPORTUNITY

Prior to Altra's acquisition, Proenfar already had a strong business and was the market leader in Colombia, but faced limited growth prospects due to shareholder difficulties. Altra became familiar with Proenfar because the company supplied plastic packaging to one of the fund's portfolio companies in Peru. Proenfar was in an attractive space due to its indirect exposure to two fast-growing segments of the Latin American consumer economy – cosmetics and pharmaceuticals.

Given its size, it had a broad and sophisticated product offering, including a few patents, which is not typical for companies of its size in Colombia. The only thing holding back the company was a conflict within the founding family, which was going through a generational transition. The family ultimately decided to sell 100% of the company in 2008/2009, which Altra was able to acquire with the entry of the Dutch Development Bank (FMO) as a partner. Unlike many family-run companies, Proenfar had already started transitioning to a professional management team and was slowly growing its presence in new markets. Likewise, the company had the technology to meet growing demand for customized packaging.

EXECUTION

Because the management of the company was almost fully independent from the family, Altra was able to hit the ground running when it took control of the company. Although it made some management changes, it focused on three main areas – regional expansion, product diversification, and manufacturing facilities upgrades, of which regional expansion was the most important. Under Altra’s management, Proenfar consolidated its presence in the Argentine market and expanded its production capacity to serve clients in the Mercosur customs union. In 2011, it also acquired Grupo Innovaplast, a Mexican manufacturer of plastic packaging for the cosmetics industry, consolidating its presence across Latin America.

Another key element of value creation was product diversification. The company added further production capacity to its Mexican plant in 2012, expanding its product portfolio and offering integrated, value-added solutions to potential strategic clients. In the Colombian market, it grew its client base for its polyethylene terephthalate (“PET”) product line, which targeted the pharmaceutical markets in Colombia and neighboring countries.

Several investments were also made to upgrade the Argentinean, Mexican and Colombian manufacturing facilities, including the purchase of new machinery in order to optimize the plant’s production capacity and efficiency. Finally, the company is currently in the process of consolidating three of its four production plants in Colombia into one new customized facility, a process that will not be finished until early 2017.

OUTCOME

Although the company has seen rapid growth since Altra took control, the fund managers do not expect to take Proenfar to the market in the short term. This is in part due to the process of consolidating the company’s manufacturing facilities. Altra expects the combined plant to be fully operational by late 2015 or early 2016, at which time the company will start to benefit from reduced costs due to improved industrial efficiency and synergies between the plants.

Altra believes that the eventual likely outcome will be a sale to a global player in this segment looking for Latin American exposure. Proenfar already has solid market share in Central America and Argentina and is growing its business in and Mexico and Peru.

COMPANY NAME

QGOG Constellation
www.qgogconstellation.com



INDUSTRY / SECTOR

Oil & Gas Drilling

LOCATION(S)

Brazil

DESCRIPTION

QGOG Constellation is a Brazilian-controlled provider of onshore and offshore oil and gas contract drilling and Floating Production, Storage and Offloading (FPSO) services in Brazil. QGOG Constellation owns a fleet of twelve offshore drilling rigs, nine ultra-deepwater, one deepwater, and two midwater rigs. In addition, the company owns nine onshore rigs and holds partnerships in six FPSOs. QGOG Constellation is controlled by Queiroz Galvão family members, who own one of the largest Brazilian industrial conglomerates.

INVESTOR PROFILE

Capital Group Private Markets has over two decades of experience as a global emerging markets private equity investor and has invested over US\$4.5 billion in 82 investments across 25 countries and 35 industries since 1992. Capital Group Private Markets is a part of The Capital Group Companies, a privately-owned global investment management organization with over 80 years of experience managing money for individuals and institutions.

DATE(S) OF INVESTMENT

JUNE 2010, SEPTEMBER 2013

AMOUNT UNDISCLOSED

PARTICIPATION/STAKE 25.9%



CAPITAL GROUP™ | PRIVATE MARKETS

FUND NAME

CIPEF V & CIPEF VI

FUND SIZE

US\$2.2 billion & US\$3 billion

TOTAL AUM

Invested over US\$4.5 billion from 6 emerging market private equity funds since 1992

OPPORTUNITY

Capital Group Private Markets' interest in investing in the Brazilian oil industry began in 2009. Following the discovery of massive oil deposits in ultra-deep waters off the Brazilian coast, Capital Group Private Markets sought a way to tap into Brazil's growing oil and gas potential. Since the announcement of these discoveries, the Brazilian state-controlled company Petrobras has seen its long-term investment plan increase substantially. In this context, Capital Group Private Markets met with several E&P start-ups, but was unable to find a company that met its risk-return criteria for investments. After ruling out a direct investment in an E&P company, Capital Group Private Markets began looking for indirect exposure to the sector and concluded that an investment in the drilling sector was a more attractive option.

Capital Group Private Markets' Brazil team approached QGOG Constellation because the company had been in the drilling business continuously since the early 1980s with an excellent operational track record in oil and gas services in Brazil and a strong reputation in delivering efficient and safe operations. At that time, QGOG Constellation was in the middle of developing a long-term strategic plan and declined to enter talks with Capital Group Private Markets, but left the door open for future discussions. One year later, QGOG Constellation had concluded this process, decided to seek an equity investor and hired Itau BBA to help the company raise capital.

QGOG Constellation's management met many investors across the globe and eventually, it chose Capital Group Private Markets and entered into exclusive negotiations. Capital Group Private Markets was selected for several reasons, including its strong track record of investing in Brazil and emerging markets in general. The larger Capital Group organization also had experience investing in both E&P and oil services.

EXECUTION

QGOG Constellation was already a fully operational company with a strong service record and proven technical capability when the investment was made. Its main client – Petrobras – periodically assesses its service providers and QGOG Constellation is consistently ranked among the leaders. Nevertheless, Capital Group Private Markets has contributed value in several ways, especially as it relates to strengthening the corporate governance framework to meet international best practices.

A full functioning board was established, with committees overseeing compensation, audit, strategy, and finance. Capital Group Private Markets participates in all of the committees and has also assisted in strengthening QGOG Constellation's system of financial and non-financial reports, important during a period of rapid growth.

OUTCOME

Both Capital Group Private Markets and the QGOG Constellation founders are focused on eventually listing the company. However, during the four years that Capital Group Private Markets has been a shareholder in QGOG Constellation, it has been extremely pleased with the company's performance. Since the investment, QGOG Constellation has gone from operating three offshore drilling units to operating eight units, as of June 2014. The company also has four additional units under construction at shipyards. In 2009, the company had an EBITDA of US\$36 million and in 2014 roughly US\$600 million. "This is over a sixteen-fold growth in EBITDA, which shows the quality and success

of this company," said Guilherme Lins, a Managing Partner responsible for Latin American investments at Capital Group Private Markets. "Even though the company has been operating for over 30 years, it's seen extraordinary growth in the past four years."

PE firms do not always invest in a company and implement drastic changes. In cases which the company already has efficient operations, PE firms create value by helping finance expansion and improve governance. –EY

ESG IN FOCUS

Capital Group Private Markets has played an active role in the development of several ESG initiatives focused on governance issues. Although QGOG Constellation has always had a genuine interest in governance and had a disciplined and rigorous system in place, Capital Group Private Markets has contributed to this discussion on several fronts.

Given the risk of FCPA-related issues in the oil industry globally and the recent passage of stronger anti-bribery statutes in Brazil, Capital Group Private Markets has helped QGOG Constellation to develop a new framework and policies to strengthen awareness and controls.

QGOG Constellation also has a robust training program for its employees and offers technical training to young professionals. Likewise, under the direct supervision of the CEO, the company has established a robust quality, health, safety, and environment framework which includes using a scorecard for employees that has a direct impact on their compensation.

QGOG Constellation is also assessed on an annual basis by the health, safety, and environment team at the International Finance Corporation (IFC).

COMPANY NAME

Red IT
www.redit.com



INDUSTRY / SECTOR

Telecommunications / Metropolitan Fiber Optics Networks / Data Centers

LOCATION(S)

Mexico

DESCRIPTION

Red IT (formerly MetroNet) was founded in 1996 as a provider of mission critical metropolitan telecommunications services via its own fiber optics network to telecom carriers in large Mexican cities including Mexico City, Monterrey, Guadalajara and Tijuana. Red IT also owns and operates corporate data centers in Mexico City, Monterrey and San Diego, providing co-location and managed services to corporate clients.

INVESTOR PROFILE

Latin Idea Ventures (“LIV”) was founded in 2000 and has raised, managed, and invested four funds dedicated to Mexican companies in the technology, media and telecommunications sectors with almost US\$200 million in assets under management. LIV focuses on later-stage venture capital companies that already have gained revenue traction and have a proven, sustainable business model. The fund’s investment team is led by Managing Partners Humberto Zesati, Alex Rossi, and Miguel Angel Dávila.

DATE(S) OF INVESTMENT

DECEMBER 2011

AMOUNT US\$3 MILLION

STAKE MINORITY



FUND NAME

Latin Idea Mexico Venture Capital Fund II

FUND SIZE

US\$20 million

TOTAL AUM

US\$200 million

OPPORTUNITY

LIV was a strong believer in Red IT’s original business plan of providing an alternative to Telmex’s metropolitan fiber network. LIV’s Managing Partners had a history with the company and its founders – a Mexican executive with vast telecommunications experience and an American executive with a background in finance. The investment opportunity arose in 2007 when Red IT was going through a difficult financial period and was looking for additional investment capital to conclude the construction of its data centers.

Although the company was doing well commercially, their need for capital, given the capital intensive nature of the business, almost led the founding partners of Red IT to enter an agreement with another investor under terms that would significantly dilute their ownership. LIV was able to step in and inject US\$3 million in the company as well as obtain US\$17 million in financing via a secured loan that used the company’s network as collateral. This allowed the founding partners of Red IT to maintain a larger stake in the company while securing the capital necessary to continue its growth process.

EXECUTION

Following the investment, the company steadily solidified its balance sheet and became more profitable. Because other companies in this sector were also facing financial difficulties at this time, Red IT was able to take advantage of M&A opportunities and acquired the Mexican data center business from Diveo Broadband in 2009. LIV led the negotiation of the deal and sourced US\$12 million of mezzanine capital through a new partnership with Paul Capital, which coincided with an additional US\$10 million from a new equity investor. This acquisition was transformational as it allowed the company to scale-up quickly and take advantage of significant operating synergies and cost savings. It also made Red IT the only data center firm with a metropolitan fiber network. The company saw Diveo as a serious competitor and believed that if it waited too long, the asking price would become prohibitively high. This acquisition took place at a time of extreme volatility in the Mexican Peso, which added to the challenges of completing the deal. Following the acquisition, the company was able to further increase not only its revenues but also its profitability.

Subsequently, the company's solid business plan attracted multiple buyout offers. Rather than exiting the investment, LIV, together with the management team and other stakeholders, decided to move ahead with the growth process. The company was already the number two player in the segment, but LIV realized that another acquisition would solidify its position. In 2010, the company acquired the US company Castle Access, its first international expansion. This acquisition further expanded its footprint as well as its market share. The company went through several other rounds of funding, including a US\$72 million investment from Cartesian Capital Group and Digital Realty in 2013.

Red IT faced one of its greatest challenges in 2011, following the unexpected and tragic death of its Founder and CEO in an airplane crash. Despite this unfortunate event, the management transition was relatively seamless due to the strong supporting team that the CEO had in place.

OUTCOME

Red IT is an example of a company that seized growth opportunities, while adapting to new market conditions. The company started out with a very carrier-centric model and later successfully transitioned to data center services with a focus on mid- and large sized players.

After rejecting several bids, the company accepted an attractive offer from Mexican data center company KIO Networks. The deal was signed June 2014 and the sale is expected to close by late 2014. The timing of the exit was crucial, as it came at a time when a change in regulations allowed foreign players greater access to the Mexican market. By acquiring Red IT, KIO will consolidate its leadership position in the market and be better prepared for competition with foreign players that enter the segment.

ESG IN FOCUS

Because the IT sector demands highly trained workers, the company has implemented its own training program, which has facilitated the development of over 300 engineers.

Additionally, Red IT has repeatedly been nominated as one of the best employers in Mexico and has also created a charitable foundation that backs social programs in the country.

If there is confidence in the business, the investor can have higher returns waiting for the best time to exit. –EY

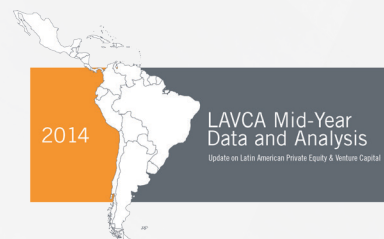
ABOUT LAVCA

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 160 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 Private Equity & Venture Capital Association.



LAVCA Scorecard

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



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