

LATIN AMERICAN PRIVATE CAPITAL & ESG DEAL CASE



DATE OF INVESTMENT July 2017
TRANSACTION SIZE Undisclosed
PARTICIPATION STAKE ~89%



COMPANY NAME

Iguá Saneamento
<https://igua.com.br/>

INDUSTRY/SECTOR

Water, Waste & Environmental Services

LOCATION Brazil

DESCRIPTION

Iguá operates in the management and operation of water supply and sewage systems through concessions and public-private partnerships. With 15 concessions and three public-private partnerships (PPPs), it currently serves over seven million people in 39 municipalities of all different sizes. In 2021, the company won the bid for Rio de Janeiro's Bloco 2, a concession to provide water and sanitation services to nearly 1.2 million people in the region.

INVESTOR PROFILE

IG4 Capital was founded in 2016 and focused on private equity special situations, credit solutions and infrastructure special opportunities in emerging markets. IG4 has an investment and operational team comprising 36 professionals with offices in London, Washington, D.C., Madrid, São Paulo, Santiago and Lima. Through its ESG in action strategy, IG4 strives to turn around businesses, innovate and promote a more sustainable form of capitalism.

FUND NAME FIP Iguá

FUND SIZE USD90m

TOTAL AUM USD1.2b

Since IG4's investment in 2017, Iguá has established a strong financial foundation and invested heavily in the expansion and modernization of water and sanitation infrastructure in Brazil, serving seven million people across 39 municipalities. The company has built over 72 km of new water distribution networks and 214 km of sewage networks, while also implementing operational changes and innovation initiatives to improve service. Iguá has been recognized for its efforts with multiple distinctions, including the Brazilian National Water Sanitation Award, the certification of Green Bond by the Climate Bonds Initiative (CBI) and reached 96 points out of 100 on GRESB (Global Infrastructure Investor benchmark).

OPPORTUNITY

Despite having one of the largest economies and highest water availability in the world, 14% of the Brazilian population still lacks access to a reliable, safely managed source of water, and more than 40% are without safely managed household sanitation facilities. Lack of access to water and sanitation disproportionately affects those living in underserved areas, leading to the spread of preventable disease, decreased quality of life and environmental pollution.

In 2013, the federal government launched the National Basic Sanitation Plan with a defined path for the country to pursue the universalization of water supply, sewage and waste management within 20 years. Private companies have increasingly been an integral part of the development plans, with concession and PPP contracts negotiated individually with each municipal government or state-owned company. In July 2020, Brazil's government approved an updated legal framework with the ambitious objective of reaching 99% water coverage and 90% sanitation coverage by 2033. Among other things, the updated framework created a committee to coordinate and mobilize resources for federal sanitation policies and incentivized greater participation of private players in water and sanitation infrastructure concessions.

The Companhia de Águas do Brasil (CAB Ambiental) was incorporated in 2006 to manage, operate and maintain water supply and sewage treatment systems. By early 2017, the company had an unsustainable debt burden surpassing BRL1.3b (~USD400m), which was affecting its ability to operate and acquire new contracts. In addition, Galvão Engenharia, the Brazilian construction conglomerate that controlled CAB Ambiental, was forced to sell most of its assets as part of a judicial restructuring process that followed Brazil's largest corruption probe. In July 2017, noting the distressed financial situation of the company and recognizing the potential for growth in the water and sanitation industry, IG4 Capital decided to purchase CAB Ambiental from Galvão Engenharia and rename it to Iguá Saneamento.

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EXECUTION

IG4's investment thesis focused on reestablishing Iguá's strong financial foundation, expanding its infrastructure capacity, and expanding its geographic presence across Brazil as well as implementing ESG initiatives, goals and plans in order to accelerate the turnaround. Through IG4's support with capital restructuring, market re-opening, and credit facilities, the company's EBITDA jumped from BRL212m in 2017 to BRL716m by the end of 2022. As part of its restructuring efforts, IG4 has partnered with renowned Canadian pension funds CPP Investments and AIMCo to secure capital needed for its expansion. In 2021, the company won the bid for Rio de Janeiro's Bloco 2, a 35-year concession to provide water and sanitation services to over 1.2 million people in Rio de Janeiro, essentially doubling the size of Iguá.

By modernizing Iguá's operational capacity through digital tools such as alternative payment options and the development of new sewage infrastructure, the company has also improved its operational efficiency with ESG impact. For example, Iguá reduced water losses from 39.7% to 37.4% in the last four years and has reduced repair intervention time from 21.6 hours in 2020 to 7.7 in 2021. In recognition of these efforts, Iguá won the Brazilian National Water Sanitation Award in 2021 due to operational excellence.

To further encourage innovation, Iguá has partnered with startups to launch projects through Iguá Lab, a program which seeks to tackle sanitation challenges with transformative solutions. The company developed the Grand Challenge Saneamento initiative, allowing startups to propose new methods of accessing and managing water resources; the 100>10>1 Startups Program, matching employees with startups they could support; and Fluxx.IA, a company within the Iguá group to develop intelligent measurement technology. On the customer side, the company integrated the Salesforce CRM and developed Digi Iguá as an application for consumers. Iguá has also adopted the Oracle Water Wise System, enabling digital management of field services and improving operational management paradigms.

ESG IN FOCUS

Iguá exemplifies the potential for mutual benefit in private concessions and public-private partnerships. The company is now present in 39 municipalities, serving more than seven million people. Iguá's investments in water infrastructure of more than BRL468m (~USD96m) have created more than 72 km of new water distribution networks and 214 km of sewage networks.

Iguá has also implemented impact initiatives ranging from water loss reduction, commitment to greenhouse gas emissions reduction, employee diversity, local supplier prioritization, engagement with communities and the establishment of Instituto Iguá, whose goal is to help universalize sanitation in Brazil through innovation and education. It has also implemented social tariff exemption in its concessions and implemented social responsibility initiatives that have impacted over 350k community members, such as soap distribution and health education programs.

In terms of environmental goals, Iguá has been able to reduce water losses from 39.7% to 37.4% from 2019 to 2022, and increased sewage sludge reuse from 0% to 29% from 2017 to 2022. The company also carried out the depollution of the Lagoon Complex in Rio and maintains a greenhouse gas inventory with external verification and publication in the GHG Protocol. Iguá has been a signatory company of the UN Global Compact since 2020 and was the first sanitation company in Brazil to commit to Science Base aligned decarbonization plans. The company is the first Latin American issuer to receive the certification of Green Bond by the Climate Bonds Initiative (CBI) and has a GRESB assessment, which places it 15 points above the global market average.

