



The Impact of Private Equity on businesses in Mexico: 17 success stories

KPMG in Mexico in cooperation with the Mexican
Private Equity Association (AMEXCAP, for its acronym in Spanish)



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Acknowledgements

We would like to thank the Mexican Private Equity Association (AMEXCAP, for its acronym in Spanish) for their support in preparing this study. Furthermore, we acknowledge the involvement of all of the funds that contributed information and success stories to this document.

A man in a grey suit and purple tie is rowing a boat on a blue lake. The background is a blurred green forest. A blue banner with white text is overlaid on the right side of the image.

Executive Summary

Executive Summary

The Private Equity industry is well established and widely understood in developed countries such as the United Kingdom and the United States. It has also achieved good and effective penetration in developing countries, such as India and Brazil. In Mexico, the sector is relatively young and although it has grown at a much faster rate and its impact has become increasingly important, it is still small. Other than the investees (entities that receive investments) and the institutions working with Private Equity funds (PE funds), there is still widespread unawareness of how the industry operates, and its impact.

This document provides relevant information on the Private Equity operation in Mexico. Likewise, it presents real success stories where we analyze its direct impact. While such content may be interesting for a wider audience, it is aimed at three groups for which this industry is particularly relevant: business community, government and society, and investors.

The business Community

Private equity funds invest resources in private companies with high growth potential, which they support with capital to strengthen competitive advantages and address areas of opportunity with the purpose of generating even higher growth rates. Private Equity investments in Mexico are mostly geared towards medium and small-sized companies that historically have not had full access to bank financing, which offers an important window of opportunity to finance growth. Furthermore, these investments can support ventures in early-stage projects with so-called “Seed Capital”. In this way, the business community can become aware of the benefits companies may derive from adding a Private Equity fund as an investor.

Government and Society

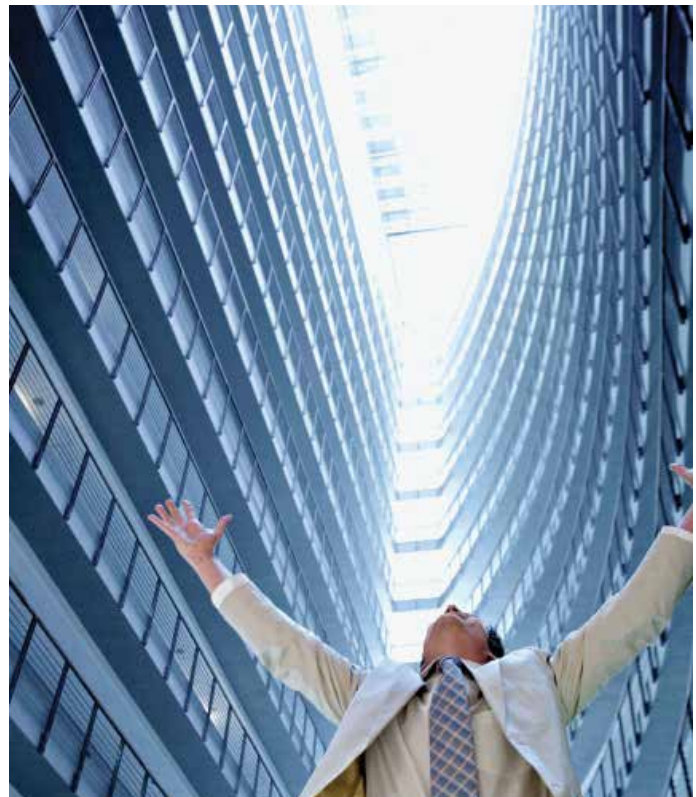
The PE funds also create positive externalities that benefit society and contribute to government workings. In addition to supporting the growth and professionalization of companies, they encourage the development of priority sectors of the economy, support the creation of well paid jobs, boost the development of social and environmental responsibility programs, and provide transparency on investee tax payments, which ultimately results in increased government revenue. Thus, government and society can understand the positive impact Private Equity may have on their communities.

Investors

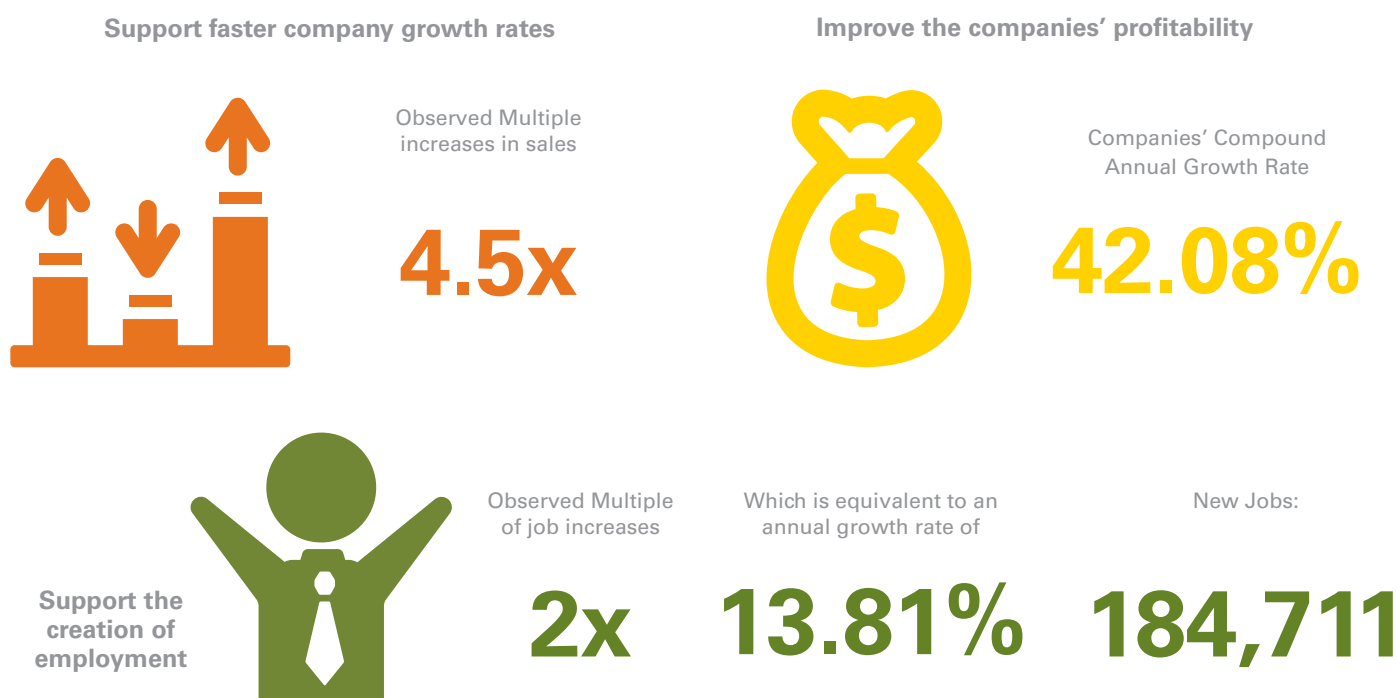
Private Equity is also an investment vehicle, alternative to traditional instruments and is very attractive for individual or institutional investors. In addition to being an option for diversifying the investment portfolio, it offers attractive returns on investment with relatively low risk. The objective is to present this industry to investors as an additional investment choice.

This document analyzes the impact of Private Equity funds in 17 recent stories of successful investments in Mexican enterprises of various sectors from 1990 to 2012. The analysis shows the actual quantitative and qualitative impact of the PE funds in specific cases of companies that continue to operate successfully to this day and in some cases, have become industry leaders.

The information presented was provided by the private equity funds and validated by the investees. Such content, except as otherwise indicated, was obtained from interviews conducted by KPMG in Mexico.



Data of success stories analyzed shows that PE funds encourage growth, and improve the investees' performance. They jointly produce positive externalities that benefit both the economy and society, and additionally:



The analysis of some of the findings throughout this document shows the following:

1. The evidence of studies in other countries indicates higher growth and productivity in companies with Private Equity investments
2. There is a lower penetration of Private Equity in Mexico, as compared to other countries
3. A positive impact of Private Equity funds is evidenced in the growth and productivity of Mexican enterprises
4. According to the Mexican Institute of Competitiveness [Instituto Mexicano para la Competitividad (IMCO)], there is a significant productivity gap in Mexican companies according to their size; small and medium-sized companies are significantly less productive than large companies

5. In Mexico, Private Equity funds primarily invest in small and medium-sized companies

Mexico may benefit from further Private Equity involvement, and the benefits would extend to companies, investees, governments, and the wider society



Introduction to Private Equity in Mexico



Introduction to Private Equity in Mexico

Private Equity is comprised by a group of equity partners who generally acquire an interest in private companies. It means that, in the case of Mexico, these are not listed on the Mexican Stock exchange (BMV, for its acronym in Spanish).

Private Equity (PE) funds invest resources in private companies with high growth potential. They provide support by strengthening competitive advantages and addressing areas of opportunity financially, operatively, and institutionally with the purpose of generating even higher growth rates.

The investees benefit greatly; they generally change from being family or small-sized businesses to sound companies that compete effectively in global markets.

These funds work through a specific structure including the following elements:

Investment Vehicle (Limited Partnership)

This is the legal vehicle for Private Equity investments. The Limited Partnership is the company that acquires the investee. Generally, it has a well-defined life cycle of approximately 10 years; it usually acquires an equity interest in the investees (majority or minority equity, depending on the fund's strategy and the particular transaction) of the investees. The acquisitions or investees are usually held by the fund for a period of three to seven years.

The Limited Partnership is the most common legal form used globally; however, Mexico also uses some other investment vehicles, such as Private Equity Investment Trusts (FICAP, for its acronym in Spanish), the Transparent Trust and the Certificates of Capital Development (CKD). Investees are frequently (or are already) reconstituted as Investment Promotion Business Companies (SAPIs) which enables further flexibility to reach agreements in relation to voting rights and stock transfer.

Investor (Limited Partner or LP):

It refers to the investor that contributes his capital to the partnership. This capital is used for the acquisition of entities that will be managed by the Private Equity firm, better known as Private Equity Fund Managers, General Partner or GP. Investors can be private or institutional, such as the pension funds (AFORES).

Fund Manager (General Partner or GP):

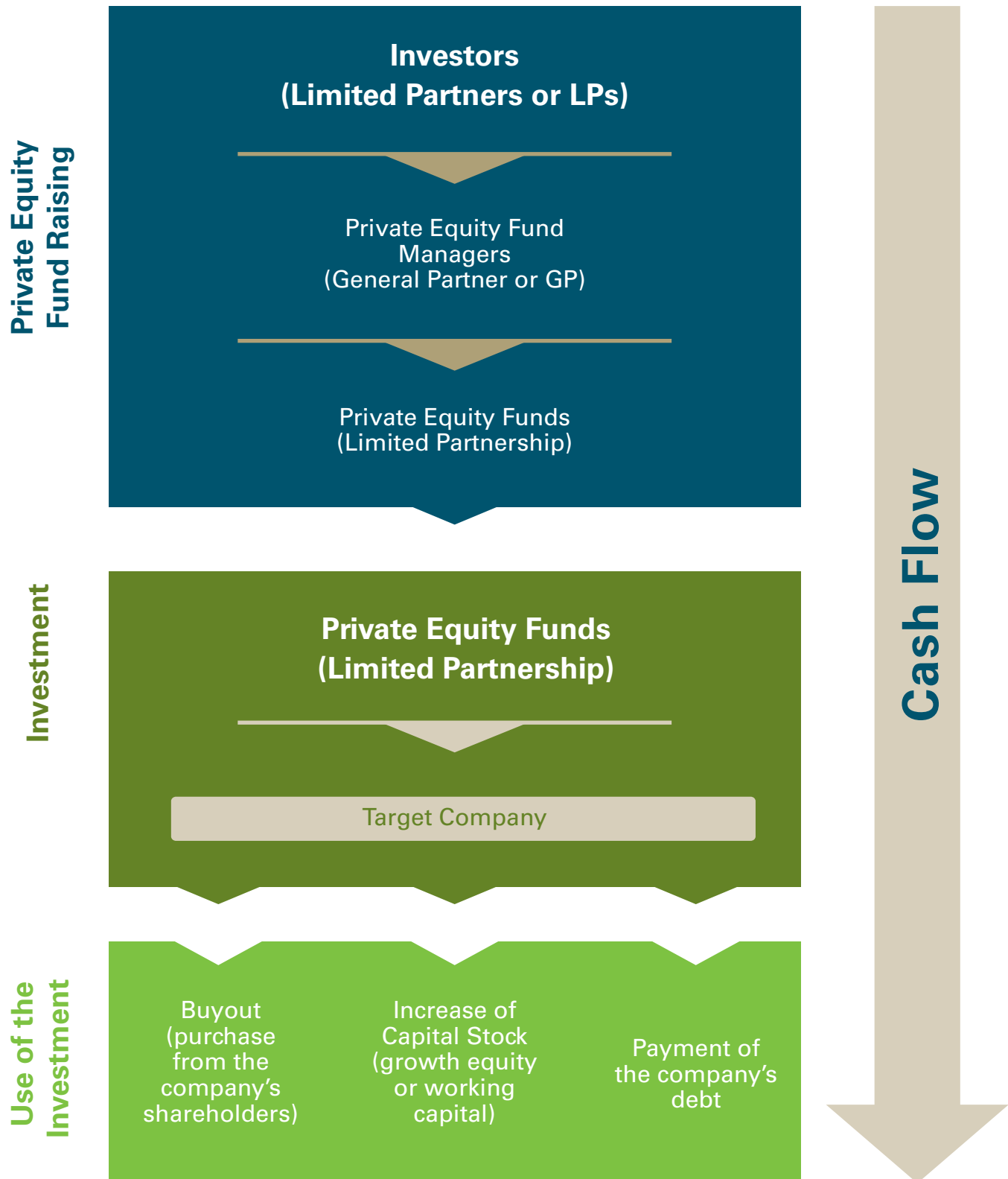
As the name suggests, the General Partner manages the Private Equity fund. He/She analyzes the options to be invested, manages the investments, and is responsible for performance, as well as the return delivered to investors.

The investor's responsibility for obligations incurred by the acquired companies is limited to the amount invested. Contrary to the GP position, the investor does not have any power as manager.

Both the administrator and the investor share the partnership or ownership in the Private Equity fund, as well as the profits obtained at the end of the investment period for the sale of the portfolio companies, in a predefined proportion.



Introduction to Private Equity in Mexico



The resources invested through an investment vehicle in the acquired company are provided by the investors and administered by the manager through one or various Private Equity funds. The manager identifies investment opportunities, and together with the investors, they determine the investments to be made.

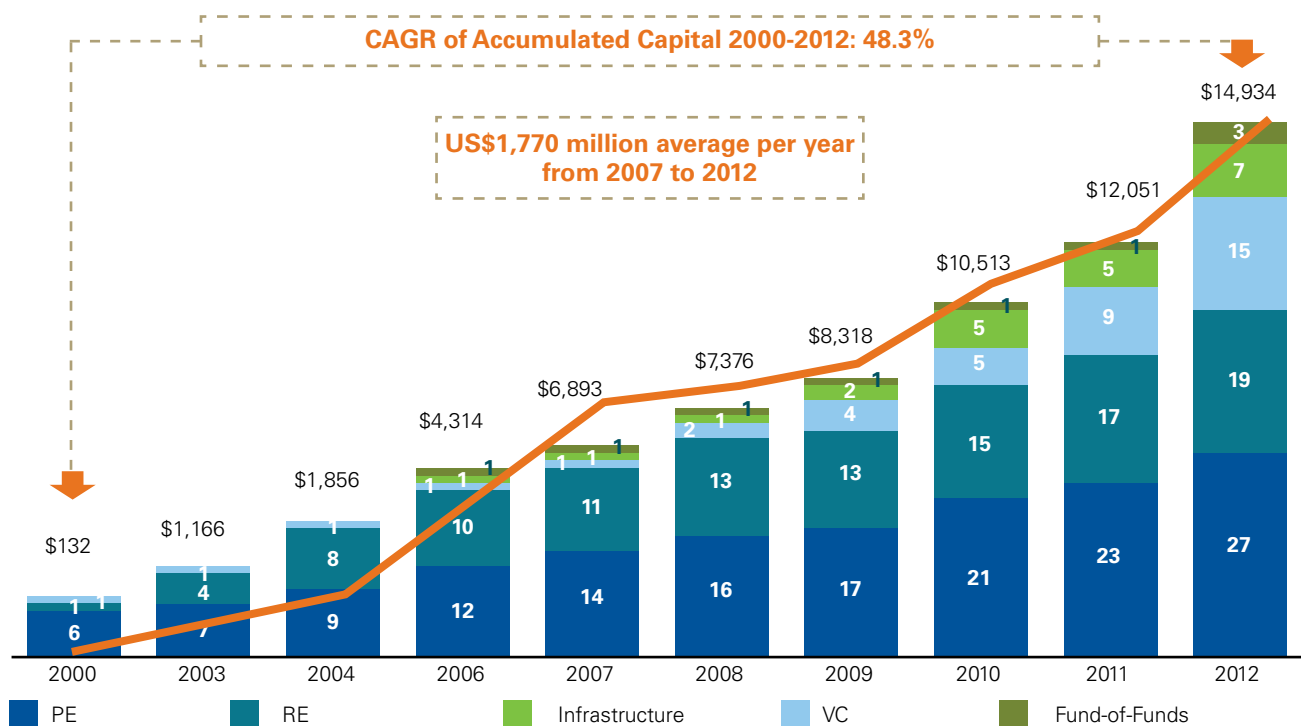
Buyout resources are allocated by the fund to buy shares from target company shareholders. The purpose of this is to increase target company capital in order to fund growth or to pay off target company debts. Once the investment is made, the manager undertakes an active role in the management of the acquired company for a period of three to five years. Following this period, the fund may sell the company back to the original shareholders or other buyers, or may sell the shares through a BMV listing thereby generating capital gains.



Introduction to Private Equity in Mexico

71 fund managers,
focused on **investing in Mexico**, were registered
as of December 2012

Number of GPs operating in Mexico



PE: Private Equity; RE: Real Estate; VC: Venture Capital

Source: AMEXCAP, November 2012

Note: Billions of Dollars

CAGR: Compound Annual Growth Rate

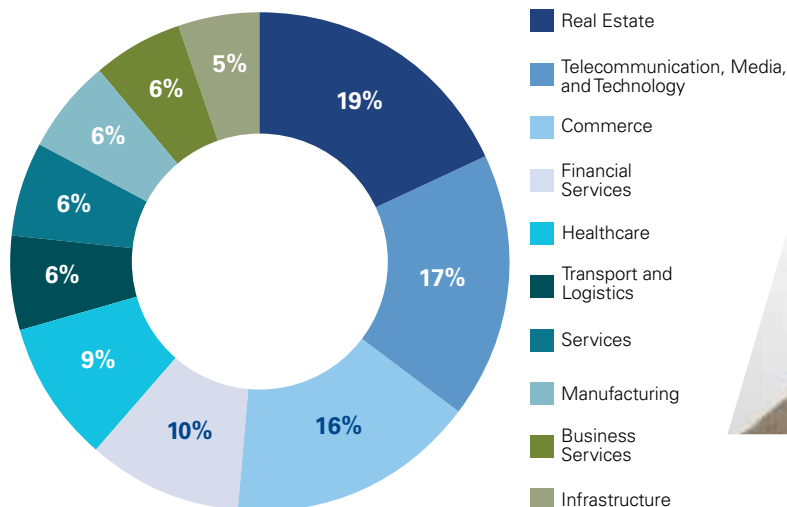
Private Equity funds invest in different kinds of assets. In Mexico, according to the sector or asset they focus their investments on, there are funds specialized in:

Real Estate: these comprise both debt and capital investments in industrial and commercial properties, offices, and housing. These Private Equity funds have over 10 years of life, make investments for an average term of two to five years throughout which assets are managed and property is sold. The risk/yield of these

funds in Real Estate depends on the improvements to property (buildings and adjacent infrastructure), as well as the value fluctuation caused by the market supply and demand.

Infrastructure: when investing in various public works, the fund is known as Infrastructure Private Equity. The public works where these kinds of funds invest are generally airports, energy generation, public transport, bridges, tunnels, and toll roads, among others.

Investments by sector
Number of transactions 2004-2011



Source: AMEXCAP

More than **US\$14 billion** in commitments allocated to invest in Mexico have been acquired by Private Equity funds in recent years

Infrastructure investments are generally long-term concessions granted by the government that result in relatively lower yields but are more stable. The investment period can exceed 20 years.

Companies: the funds that invest in entities buy equity interest in companies of one or various sectors. They are actively involved in the companies' management for an average of three to five years. There are funds specialized in one or various sectors.



Depending on the life cycle stage of targeted companies at the time of investment, funds can be Venture Capital, specialized in investing during early to medium stages of high potential companies, or Private Equity which focuses on high growth companies at the medium to consolidated stages. Private Equity funds also invest in mature companies.

Some companies, such as Arabela (beauty products company included in this study), have received Private Equity at multiple stages throughout their life/growth cycle: from the foundation and growth stages to, international expansion.

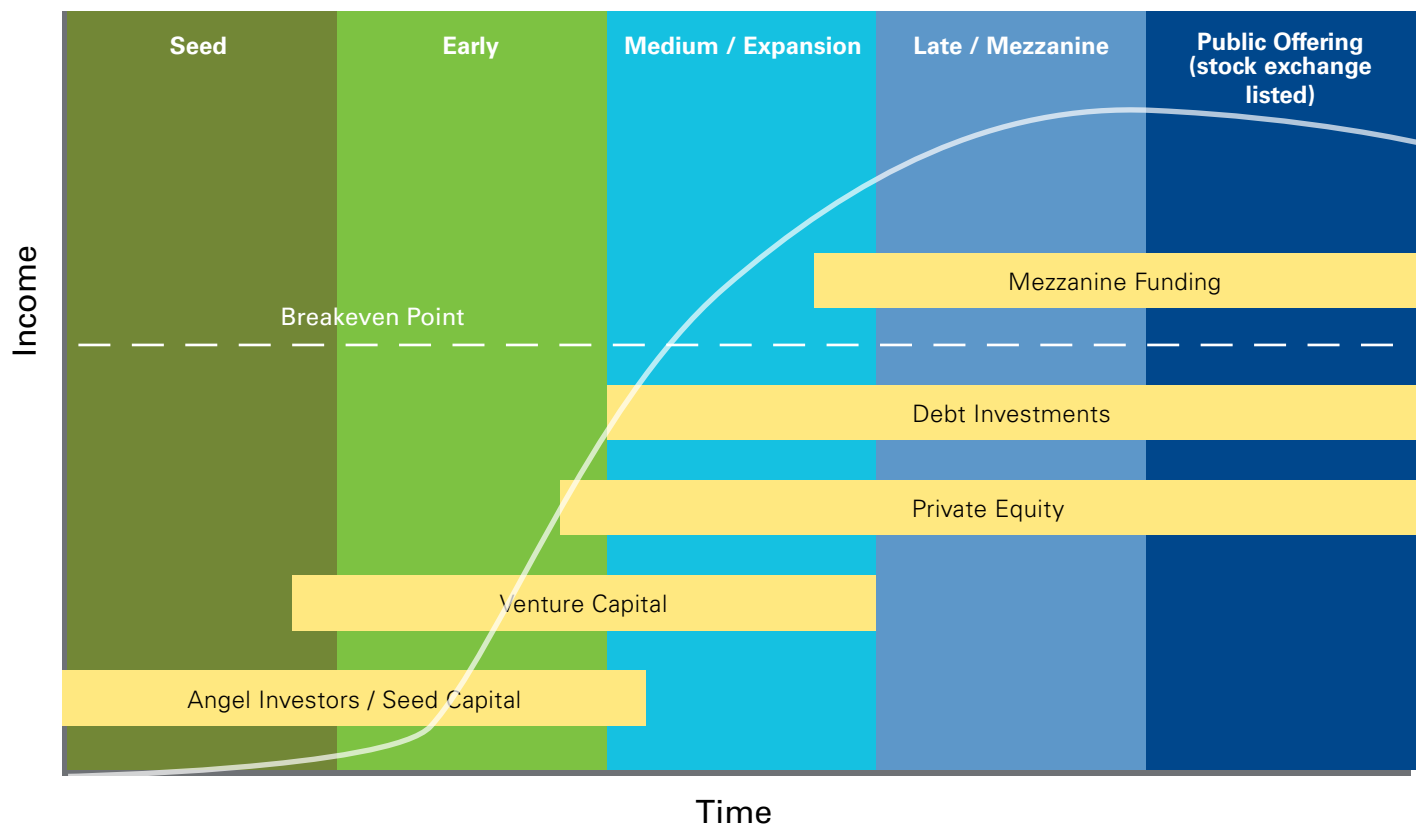
According to information provided by AMEXCAP for November 2012, in Mexico, 71 fund managers are in operation, 27 of which are specialized in Private Equity; 15 in Venture Capital, 19 in Real Estate, 7 in Infrastructure, and 3 are "funds-of-funds" (which provide resources to Private Equity funds).

For the 2004 – 2011 period, fund investments have focused on 10 sectors, 3 of which represent more than 50%.

Private Equity funds operating in Mexico have raised US\$14,939 million from 2000 to 2012.

Introduction to Private Equity in Mexico

Life cycle stages of an investee according to its strategy



The **Seed Capital** funds invest in projects that are still under the creation or development stage. **Angel Investors** are individuals who allocate their own resources to investments in companies at the start-up stage, and generally invest in this kinds of funds.

There are also **Venture Capital** funds that invest in early stages of the life cycle of high potential businesses. They commonly invest in companies that are less than five years old, and have not been consolidated in their market. Most **Private Equity** funds established in Mexico, invest in companies that have been operating for a while and are relatively consolidated in their markets, but are still experiencing strong growth and have the potential to continue it.

The period of investment in a company depends on their strategy (seed, venture, growth), and is related to the time that a business project takes to generate the expected return by administrators and investors, according to the initial fund investment thesis.

At the end of the investment period, the funds aim to exit and generate capital gains through various strategies: by the sale of their partnership to the original shareholders, to other industry acquirers (strategic buyers) or via initial public offerings (IPO's) in the Mexican Stock exchange.



About the Study

About the Study

Case	Investment Fund	Year Founded	Year of Fund Investment	Year of Fund Exit	Years of Existence at the Time of the Investment
Arabela	Procorp	1990	1990	2007	0
Arabela	Carlyle	1990	2007	NA	17
ARG	The Abraaj Group/Alta Growth Capital	2001	2008	NA	7
ClickOnero	Angel Ventures	2007	2010	NA	3
Corporación EG (RuhRPumpen)	WAMEX Private Equity	1979	2004	2011	25
Docuformas	The Abraaj Group	1996	2008	NA	12
Dufry	Advent International Corporation	1865	2004	2013	139
Genomma Lab	Nexus Capital	1996	2004	2011	8
HOMEX	Nexus Capital	1989	2000	2005	11
HTC	Carlyle	1999	2005	2009	6
IGS (venta portafolio industrial)	IGS Group	1995	2002	2007	7
Kendrick	Darby Private Equity	1946	2005	2009	59
Micel	IGNIA	2008	2010	NA	2
MM Cinemas	Southern Cross Group	1981	2006	2008	25
redIT	Latin Idea Ventures	1998	2007	2012	9
Punto Clave	New Growth Fund	2005	2010	NA	5
Volaris	Discovery Americas	2005	2005	NA	0

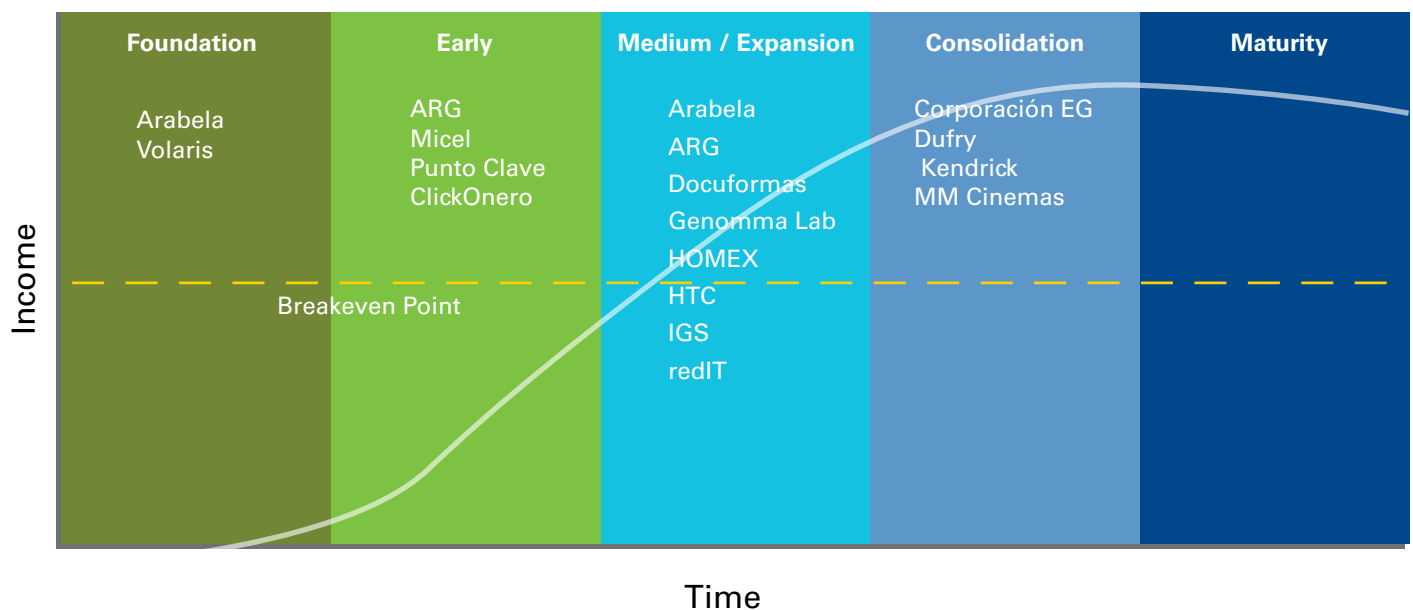
NA: Not applicable since the fund retains the investment.

A total of 17 success stories were analyzed in different sectors:

- In the 17 cases, 16 companies were analyzed. The story of Arabela, a company where two Private Equity funds invested over different periods, is included in the table above as two separate success stories and, as a result, we are presenting 17 cases and 16 companies
- 10 of the 17 success stories represent investments where the investment cycle has already been completed. This means that the fund invested, implemented its strategy, and then exited such investment by an IPO or a sale to a financial or strategic buyer
- In six of the stories analyzed, a Private Equity fund still maintains its investment
- Two stories represent investments where a fund has already completed its cycle but sold its share of capital to another Private Equity fund that continues to hold the investment
- One of the stories represents an investment where two Private Equity funds hold an investment in the company

In the 17 cases, **16 companies are analyzed**. The case of Arabela, a company where two Private Equity funds invested in different periods, is included as two separate success stories, and as a result, we have 17 cases and 16 companies

Life cycle stages of the investees in the success stories at the time of the fund investment*



* Investees were classified according to their years of operation, considered as the time elapsed from the foundation of the company to the investment by the fund. This classification does not necessarily match the growth cycle experienced by the company at the time of the investment. For investees where more than one fund has invested, the classification was made, according to the years of operation at the moment of the first fund investment.

- The companies of these 17 cases had very different sizes in terms of sales, income, and jobs at the time of the investment and the exit of the fund. Regarding sales, start-ups such as Volaris and Arabela are included (i.e. recently-founded companies without sales). The smallest company that was not recently created is ARG, which generated sales of \$56 million pesos at the time of the fund investment. The Abraaj Group (formerly, Aureos Capital) and Alta Growth Capital invested in it. The largest company among the 17 cases is Dufry, with sales of \$7,761 million pesos at the time of the investment by Advent International Corporation. This range illustrates the variety of companies where funds make investments
- The total investment period of the fund also varies, and comprises from 1990 to 2012, for a maximum investment

term of 17 years, a minimum of 2 years, and an average of 5.75 years. Since there are cases where the fund still maintains its investment in the company, as well as cases where information for the whole investment period is not available, the total investment period does not always match the analyzed period

- The average life of a company from its foundation to the time of fund investment ranges from 0 years –in the case of Discovery Americas’ investment in Volaris, and Procorp’s investment in Arabela since they are start-ups– to 59 years in the case of Kendrick –the oldest Mexican company where Darby Private Equity invested. If we disregard these two extreme cases, the average years of operation, from creation to the time of receiving capital from a fund is 11.5 years

About the Study

As noted above, most of the analyzed success cases are companies that had been operating for more than five years (11.5, on average) at the time of the investment. This is aligned with the strategy of most of the funds established in Mexico, which seek investments that are still in a growth stage but have already at least five years in operation, and in a certain way, have demonstrated their ability to remain on the market.

From the 17 analyzed cases, 5 are from the Telecommunications Media and Technology sector, 3 from Commerce, 2 from Financial Services, 2 from Healthcare, 1 from Construction (Housing), 1 from Manufacturing, 1 from business services, 1 from Transport, and 1 from Real Estate.

For the documented cases, information about three variables was obtained at the time of the first investment and at the exit of the fund:

- Sales
- Income measured by EBITDA ⁽¹⁾ / EBT ⁽²⁾
- Number of jobs

The value of these indicators was summed for all the cases, and the following was obtained:

- Multiples, which divide the variable value at the fund's entry year by the variable value at the fund's exit year

- Compound Annual Growth Rate (CAGR) is an annual growth average measure of the indicator during the investment period

For 12 of the success cases, sales and income information was obtained; for nine of the cases, information on the three indicators was obtained, and for four stories, no information was available for different reasons.

The multiples and the growth rates of the sales and income aggregates of the success cases were compared to the multiples and growth rates of the sales and income aggregates for BMV sample companies. Such BMV companies represent 98% of the BMV Pricing and Trading Index (Índice de Precios y Cotizaciones IPC, for its acronym in Spanish) over a period of five years, from 2006 to 2011 (see appendix at the end).

After the quantitative analysis, several qualitative impacts of the funds on the investees were analyzed as well. At the end of this document, each one of the success stories is described.

Number of analyzed cases by sector

Sector	Number of cases analyzed
Telecommunications Media and Technology	5
Commerce	3
Financial Services	2
Healthcare	2
Construction (Housing)	1
Manufacture	1
Services for Businesses	1
Transport	1
Real Estate	1

¹ Earnings before interest, tax, depreciation, and amortization.

² Earnings before taxes.

Impact Analysis

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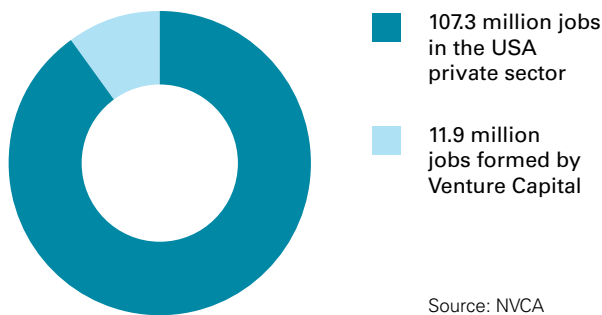
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Impact Analysis

The impact of Private Equity is important in other countries. In the USA, according to information from the National Venture Capital Association (NVCA):

- In 2010, the companies with Private Equity /Venture Capital investment contributed 10% of the total sales generated in the USA (US\$3.1 trillion out of US\$30 trillion)
- These companies contribute 11% of total employment in USA's private sector
- Additionally, they grew up above average rates over the 2006-2008 period, experiencing 5.3% annual growth in sales compared to 3.5% overall

Companies with Private Equity in the USA, according to the NVCA

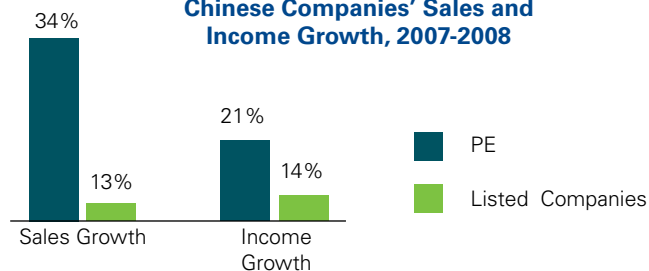


Source: NVCA

In countries such as China, according to a study by the European Chamber and Bain & Company, the impact is also relevant:

- For the 2007-2008 period, sales of companies with Private Equity investment grew at a 34% rate as compared to a 13% rate for listed companies
- The profits of companies with Private Equity investment grew by 21% as compared to a 14% rate for listed companies

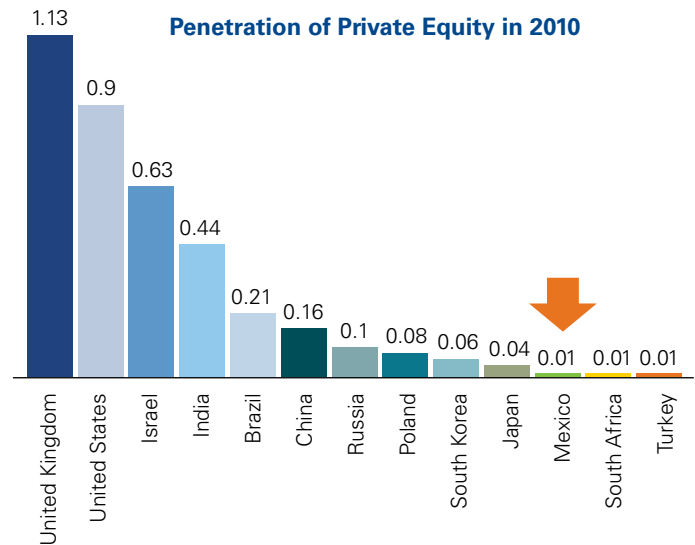
Chinese Companies' Sales and Income Growth, 2007-2008



Source: European Chamber and Bain & Company, The Social and Economic Impact of Private Equity in China, March 2012.

The penetration of the Private Equity industry in Mexico is quite low when compared to that of developed countries, such as the United Kingdom, United States, and Israel, and even to that of some developing countries, such as India and Brazil.

Penetration of Private Equity in 2010

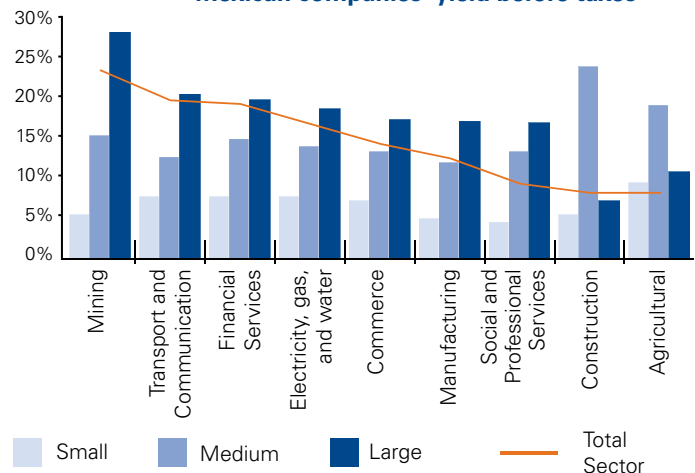


Source: Emerging Markets Private Equity Association (EMPEA).

Additionally, according to data issued by the Mexican Institute of Competitiveness [Instituto Mexicano de la Competitividad (IMCO)], there is a significant productivity gap in Mexican companies according to their size; small and medium-sized are significantly less productive than large companies.

A greater penetration of the industry in Mexico may support these companies to close the productivity gap with large companies.

Mexican companies' yield before taxes



Source: IMCO, Facilitating access to the formal labor market, April 2011.

Quantitative impact of Private Equity Funds

4.5 was the observed multiple of the increase in aggregate sales in the analyzed success stories

Sales

Considering the aggregate sales of the 12 companies that received private equity and for which the sales information was shared for conducting this study, we noted a growth multiple of 4.5 times the sales over the analyzed period⁽¹⁾ where the PE funds supported the companies' management. This means that for each peso earned by these companies at the beginning of the analyzed period, 4.5 pesos were earned at the end. In absolute terms, the 12 companies had sales of 14.37 billion pesos in aggregate at the beginning (base year) and ended up with 64.75 billion pesos at the end of the period (5 years after the investment year, on average).

This contrasts with the sales multiple observed for a sample of BMV companies of 2.06 over a similar period. If we put this in context and accept as valid the statement that in Mexico a high percentage of new companies have a life expectancy of three years or less and an even higher percentage do not live past their fifth year, we realize the impact from the joint operation of Private Equity funds and companies. These joint operations are not only sustainable in the medium term but also become growth leaders in their segments.

As to sales growth, notable success stories include those of Genomma Lab, HOMEX and RuhrPumpen where the introduction of new products or the expansion into new territories domestically and internationally have had a decisive effect that was reflected in increased sales.

However, the Private Equity funds, jointly with the investees, in addition to generating higher growths than

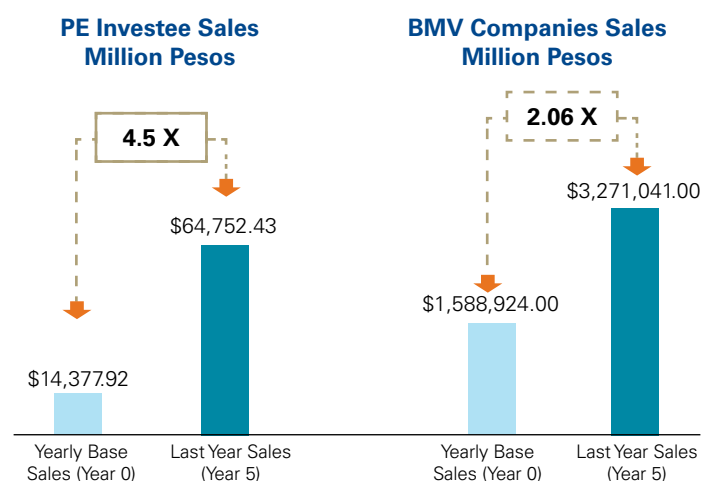
industry average, encourage a more sustainable growth because they diversify income sources and create more balanced business portfolios.

In cases such as Genomma Labs or Arabela, PE funds encouraged the creation of new business lines that promoted growth. MM Cinemas or RuhrPumpen illustrate the introduction of new geographic regions to acquire additional market share; those of HTC or Kendrick show how diversifying their client portfolios can provide further certainty, and increase cash flows.

In all these cases, among others, the funds, jointly with the investees achieved a more balanced income portfolio that enabled the reduction of a high exposure to a single source of income.

The outcome is evident; the investees keep operating in all the cases analyzed, and have better growth perspectives than prior to investment by the funds.

In addition to a remarkable capacity to select high growth companies, the funds contribute with their knowledge on topics such as strategy, transactions, management, finance, Corporate Governance, strategic contacts, and other areas to deliver value. As a consequence, in addition to contributing capital, the fund is an important catalyst for business growth.



Source: KPMG with information provided by Casa de Bolsa Banorte-IXE. For further information about the BMV companies' computations, see the appendix at the end of the document.

¹⁾ The analysis period is that for which information was available from the companies analyzed in the success stories. This period does not necessarily match the total investment period of the fund in the company. In certain cases, the analysis period is less than the total investment period of the fund.

Impact Analysis

Quantitative impact of Private Equity Funds

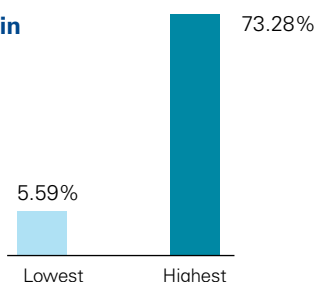
The aggregate sales of the investees grew at a **35% CAGR**

The aggregate sales of the analyzed companies grew at a compound annual rate of 35.1% over the 5 years of the analysis period.

Companies with Private Equity investment grew at a much faster rate than sampled BMV companies, which demonstrated a CAGR of 15.54% over a similar 5 year period.

We highlight cases such as that of ARG, a company engaged in operating leasing, where the resources invested by the PE funds ensured an increased leasing portfolio with very high growth rates. HOMEX, Genomma and Kendrick are also examples where adequate strategic planning translated into action to attain significant annual growth rates of sales.

CAGR of sales observed in individual cases



Aggregate information	Indicator	PE Companies	BMV Companies
	Number of cases with information	12	31
	Sales at beginning of period	\$14,377.92	\$1,588,924.00
	Sales at end of period	\$64,752.43	\$3,271,041.00
	Average years of analysis period	5.00	5.00
	Multiple	4.50	2.06
	CAGR	35.12%	15.54%

EBITDA/EBT

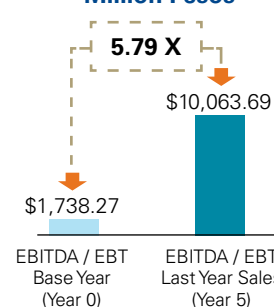
Private Equity funds also have a positive impact on corporate profitability. The multiple observed in the aggregate profit was 5.79. For each peso of EBITDA/EBT generated by the companies at the beginning of the analysis period, 5.79 pesos resulted at the end.

In a similar period, BMV listed companies achieved an EBITDA / EBT multiple of 1.53, roughly one-fourth of that achieved by companies with Private Equity investment.

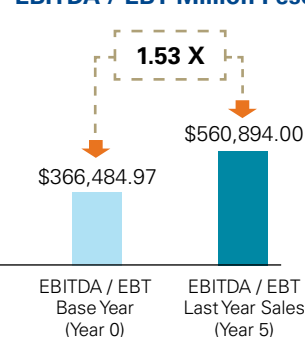
Such a significant growth is achieved with the assistance of PE funds' sound administrative and financial capabilities. To achieve these outcomes, from the first day of their investment, the PE funds implemented strategic planning processes such as in the case of Punto Clave, they promoted the establishment of strict financial controls as in Micel or HOMEX, or established exhaustive performance measurement and management programs, and aligned management and shareholder interests using competitive compensation programs as in the case of HTC.

The highest and lowest income multiples observed for success stories analyzed were 27.41 and 1.46, respectively.

PE Investment Companies EBITDA / EBT Million Pesos



BMV Companies EBITDA / EBT Million Pesos



Source: KPMG with information provided by Casa de Bolsa Banorte-IXE. For further information about the BMV companies' computations, see the appendix at the end of the document.

For each peso of aggregate profit at the beginning of the period, there were **\$5.8** pesos of profit at the end

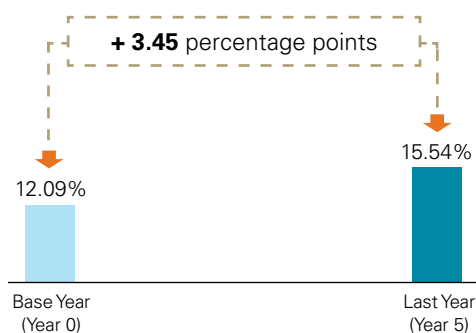
The **aggregate profit** of the investees grew at a CARG of **42.08%** over the analyzed investment period

During the analyzed investment period, EBITDA/EBT of the 12 investees with reported figures grew at a Compounded Annual Growth Rate (CAGR) of 42.08%.

In a similar period, the EBITDA / EBT of BMV companies grew at a CAGR of 8.88%, showing a difference of 35 percentage points of growth.

This demonstrates the capacity of Private Equity funds to improve the profitability of investees since, in addition to the growth in absolute terms, profits also increased from 12.09% as a percentage of sales at the beginning of the period to 15.54% at the end of the period.

PE Companies' Profit – Sales %



	Indicator	PE Companies	BMV Companies
Aggregate information	Number of cases with information	12	31
	Sales at beginning of period	\$1,738.27	\$366,484.97
	Sales at end of period	\$10,063.69	\$560,894.00
	Average years of analysis period	5.00	5.00
	Multiple	5.97	1.53
	CAGR	42.08%	8.88%



Impact Analysis

Quantitative impact of Private Equity Funds

The number of
employments grew by a
multiple of **2.08**

Jobs

As already mentioned, the impact of Private Equity funds is not strictly limited to investees since positive externalities occur that benefit society. A clear example of this is the creation of jobs that are the result of successful partnerships between businesses with high growth potential and Private Equity funds.

As with sales and profit variables, we collected information on jobs. Employment data was available for 8 of the 17 companies analyzed. For the remaining cases no information was presented since the companies operated in non-labor intensive segments; therefore, the impact on the number of jobs created was not significant, or cases where investments were so recent that the positive effects on employment had not yet materialized.

The job growth multiple for the aggregate cases was 2 when comparing the number of workers at the beginning of the investment period to the final figure.

Aggregate information on Cases Analyzed	Indicator	Value
	Number of cases with information	9
	Jobs at beginning of period	170,714
	Jobs at end of period	355,425
	Average years of investment	5.67
	Multiple	2.08
	CAGR	13.81%

* The average years of the analysis period differ for jobs, since only information of 9 companies was obtained; thus, the period was adjusted.





This effect is definitely significant considering that most of these investments were maintained during the crisis that began in 2008, which resulted in the loss of many jobs in Mexico. Instead of cutting down on employment, companies of these success stories created over 184,000 jobs during the investment period¹⁾.

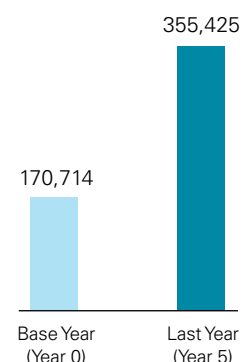
With respect to job creation in Mexico, notable cases include Arabela, HOMEX, HTC and Volaris, which together totaled over 181,000 new jobs during the investment period.

During the analyzed period, the CAGR of total jobs was 13.81%. For individual cases, the highest CAGR noted was 31%; that is, since the PE fund invested in this company, 31 additional jobs were created annually for each 100 existing employees. The lowest CAGR for jobs was 9.6%, still significantly higher than the employment creation rate of the Mexican economy of approximately 2% annually, on average, over the past five years.

¹⁾Out of these 184,000 jobs, nearly 165,000 correspond to the success case of Arabela where the jobs are not directly created by the company. Arabela sells products to sales representatives that are self-employed selling the company's products in their communities. We are considering these jobs since the company's geographical expansion enabled an increasing number of persons selling its products. Although not direct employees, this is a positive externality created by the company's operation. If we remove this company from the aggregate, the impact is still very significant in the multiple and in the CAGR, which would be 2.84 and 23.65% respectively.

The average annual growth rate in the number of employees was
13.8%

Jobs in PE Companies



Impact Analysis

Qualitative impact of Private Equity Funds

As previously stated, in addition to the impact on variables that may be quantified, the partnership with Private Equity funds generates positive qualitative effects. Although these effects may not be measured directly, their impact on the investees is material and usually translates into quantitative benefits either in sales, profits or other indicators.

Institutionalization

Perhaps the most common qualitative impact is the company's institutionalization. Private Equity funds are particularly interested in investees following an institutionalization process. The more institutional the company is, the easier the fund's exit is either through a sale to a financial or strategic buyer or through a listing on the BMV. A more institutional company can also obtain additional funding to finance its growth, either from Banks or other institutions. In all of the success stories presented in this document, the PE funds established institutionalization programs including, among others: creation of management committees, setup of a governance meetings attended in all of the cases by a member of the fund, and, in many by external advisors as well. It also administers the execution of transparency programs for managing the funds and payment to employees and the audit of the companies' financial statements by well-known and transparent firms.

At the exit of the funds, all the companies analyzed had significantly progressed in the institutionalization process; they had further access to new investors and other sources of funds. Likewise, they are better recognized in the market.

Performance focus and risk management

An additional qualitative impact is that virtually all of the companies surveyed showed a much stronger focus on performance. PE Funds have a significant ability to align the company's shareholder interests with those of management. They establish payment programs strongly linked to operating performance, which enables the organization to move forward in the same direction, and to more easily achieve established goals.

The HTC and Kendrick cases provide an example of this. When the fund invested, option based payment programs were created that associated a portion of the executive team payment to the company's performance, and even to the sale price of the company.

As already mentioned in the quantitative section, PE funds also reduce market or operational risks in order to strike a better balance of portfolios which provides greater certainty about future revenue streams.

Success Story in focus: HTC

Hispanic Teleservices Corporation or HTC is an inbound call center founded in Mexico by two MBA classmates. At the beginning, HTC specialized in bilingual services focused on the USA Hispanic market.

HTC received a venture capital investment that sought to exit in 2005. The opportunity was introduced to Carlyle Mexico Partners team, and after a detailed analysis and deep negotiation, the fund identified the potential, and decided to invest in HTC.

The investment contributed to institutionalize the company's decision making process, and sped up the attraction of new accounts. The increase in the operation volume, and as a consequence, in income and profit, enabled the company to create the critical mass that would attract an important strategic buyer.

When HTC was sold by the fund, its operative metrics were comparable to the best operations of their kind around the world.

See success story on page 52.

Success Story in Focus: Genomma Lab

From an early investment stage, it was agreed that Genomma Lab's partners would focus on operating the business and the fund would focus on improving resource and risk management. Nexxus Capital worked with Genomma Lab in diversifying the portfolio because up to 40% of income was concentrated in a single client.

A critical element of the investment success was focusing on risk management by product, so limiting the total capital percentage invested in each product in order to diversify risks. Likewise, the analysis process of products and brands to be included in the portfolio was strengthened in order to maximize the profits. This enabled Genomma Lab to develop and strengthen its product portfolio.

[See success story on page 48.](#)

Strategic planning

One of the most important impacts of a fund, which can completely change the company's culture, is the definition of a strategic plan. A strategic plan creates specific short and medium-term growth goals and provides detailed instructions on how to achieve such goals. Sometimes, rapidly growing companies have not defined a plan specifying its business model and strategy.

In the analyzed cases, we identified a series of strategic planning tools that funds use consistently in all the investees.

Such tools set a clear course for the business, and establish clear objectives such as: markets, segments, geographic penetration, clients, prices and performance indicators, among others.

Cases such as ARG, Docuformas, and Punto Clave are specific examples of the benefits a well-organized planning process can provide to a company.

During the investment period, the funds change the culture and values of entities, thereby creating a profound effect that lasts beyond the investment period.

Success Story in Focus: Punto Clave

From the due diligence stage, the value of launching an important business institutionalization and formalization process was evident. Newgrowth Fund and the founding partners worked jointly in an aggressive planning process over the first 100 days. The 100-Day Plan enabled the plan to evolve from an unorganized list of more than 100 initiatives to a simple but sound and agreed upon strategic plan that gave priority to four growth segments:

- Government social programs
- Financial Sector
- Gas Station Sector
- Retail Sector

This way, Punto Clave focused its efforts in those sectors with a higher growth potential. The company significantly increased its income and guaranteed a high level of service and satisfaction for its clients, as already reflected in their long-term relationships.

[See success story on page 62.](#)



Impact Analysis

Qualitative impact of Private Equity Funds

Professionalization

Active Private Equity fund management also promotes the professionalization of the company's processes. The finance function is one of the PE funds' priority areas and in most of the analyzed cases, the PE funds worked actively to establish controls and define investment policies. They applied cost reduction and cash flow management processes to ensure business continuity and growth. Additionally, the PE funds drive operating efficiencies and transfer know-how on various topics.

WAMEX's experience in lean manufacturing processes made RuhrPumpen's operation more efficient and enabled the company to increase production substantially.

IGNIA's experience in financial matters allowed for refinement the algorithm used by Micel in order to improve the quality of its loan portfolio.

Installing efficient information systems in Dufry, a company promoted by Advent International Corporation, and implementing a global synchronized platform for the management of resources enabled significant cost savings.

Success Story in Focus: Kendrick

From the beginning, Kendrick and Darby aligned their interests to revert the business's main weakness; its high dependency on the public sector. After a failed attempt, the need for changing the commercial strategy was recognized. Thus, the company decided to hire a team with expertise in mass consumption goods. Instead of focusing marketing efforts on doctors, the sale effort was centered on dispatchers at the point of sale (drugstores and convenience stores). Four years after the investment, more than 70% of sales came from the private sector, the brand had strong awareness, and it was the pharmaceutical company with the highest growth rate in Mexico.

[See success story on page 56.](#)



Greater access to financing

In addition to providing initial growth equity, PE involvement allows for improved access to financing sources, mainly for two reasons:

1. Funds provide more certainty to banks and other capital providers by making companies' activities more transparent
2. The PE funds have a wide ranging network of contacts and hold strong relationships with banks and credit institutions that recurrently provide financing to company portfolios. When a new company is added to the fund investments, a new window of opportunity opens to acquire additional resources. When funds exit, organizations keep these relationships which allow them to secure the necessary resources to operate over the long-term

ARG and Docuformas are specific cases where The Abraaj Group and Alta Growth equity succeeded in securing additional resources for growth financing.



Success Story in Focus: ARG

ARG's management needed resources to fund a new growth stage; therefore, the company decided to seek new partners. With an initial investment of 10 million dollars in two stages, Aureos Mexico Advisers was the first investor in the company. The invested capital allowed ARG to restart operations, and obtain new accounts that resulted in an initial growth.

However, the business dynamism and the market opportunities required a greater investment to strengthen the balance sheet and enable new credit lines. After an exhaustive analysis, ARG and The Abraaj Group decided to invite Alta Growth equity as partner.

Prior to the investment, both funds identified that ARG's key business performance factor was to obtain credit lines that would enable the company to operate in the mid-term, since both the operation and the commercialization were solid. Using their contacts, they discussed the business case with banks and established short and mid-term funding agreements.

ARG's good performance in terms of growth, and the solid management promoted by the funds enabled it to acquire debt in the BMV in the amount of 500 million pesos that would be allocated only to fund the growth, and place ARG in a new level of operations volume.

[See success story on page 40.](#)

Impact Analysis

Qualitative impact of Private Equity Funds

Geographical expansion and market consolidation

One of the strategies PE funds repeatedly use to drive the growth of investees is expanding their geographical reach. In the analyzed cases there are specific examples of geographical expansion, both locally and internationally. Before investing, the funds analyze the growth potential of the companies, organically and inorganically, and work from the first day in developing structured expansion programs.

The funds use the deep knowledge they have about mergers and acquisitions to consolidate their markets by purchasing companies that enable the creation of critical mass. In addition to generating growth, this makes companies more attractive at the time of the sale.

Corporate responsibility and sustainability

Private Equity funds also seek to positively impact the communities where they invest. In most cases analyzed, corporate, social and environmental responsibility programs were implemented.

In addition to enhancing the company's external image, these programs have tangible positive impacts that range from the creation of infrastructure to programs that promote the healthcare of employees and their families.

Generally, all these are qualitative impacts observable in the investees; however, there are also other positive externalities as a consequence of fund investments. By investing in growth sectors, the funds generally promote the development of sectors that are a priority for the country, such as Pymes (small and middle-size companies), generic drugs, cellular telephones, or housing for low income populations.

Success Story in Focus: RuhRPumpen

From the beginning, the acquisitions were critical for RuhRPumpen. The partnership with WAMEX enabled the company to strengthen and speed up this process to consolidate as a key performer in an industry requiring quick movements. Nowadays, RuhRPumpen is a Mexican company, fully family-owned, with plans to duplicate its size in the next four years.

By coordinating the work with WAMEX, RuhRPumpen has consolidated as a global company with production plants in seven countries, operating in the five continents and competing successfully with well-known multinational brands.

See success story on page 66.

Success Story in Focus: HOMEX

In addition to the strong impact on the company, HOMEX became an important employer. During the partnership period with Nexxus Capital, the constructor created 5,432 additional jobs, which were offered directly by the company. In this way, it supported the economic development process of the investees.

However, HOMEX's impact is beyond the creation of job sources, because in every community where it operates, integral projects are developed that support an improved quality of life for families living in such developments. Additionally, the community development is supported by building schools, churches, and other public spaces that are donated by HOMEX to the communities where it sets developments up. It also promotes education for adults who, for any reason, were not able to continue studying.

See success story on page 50.



Fiscal transparency

Another positive fund externality is fostering the timely compliance of tax-related obligations. Therefore, in addition to generating greater tax revenue for federal, state and municipal governments through growth of the investees, the PE funds avoid aggressive tax strategies and promote transparent relationships with the government.

Once the funds exit their investments, the investees have a different culture, and continue with these practices that, in the end, yield additional benefits.

Conclusions



Although the Private Equity industry in Mexico is still small compared to other economies', it has nevertheless experienced significant growth since the creation of the first PE funds. The industry continues to grow in importance by both the level of resources invested (growing at an annual average rate of 48.30% in the 2000–2012 period) and its impact on companies and society. Private Equity funds operating in Mexico invest in companies of practically all sectors of the economy, size and years in operation.

The analysis performed in this study, found evidence supporting the hypothesis that the investment of Private Equity funds and their involvement in the businesses where they invest, results in increases of sales, profits and jobs at rates that are much higher than those at which other companies grow, such as BMV listed entities. Additionally, positive externalities from the partnership of PE funds and companies were identified which benefit the wider society.

Benefits identified from the partnership among PE funds and companies are relevant for the following stakeholders:

Investees

- In the first place, investee company owners benefit directly, since companies grow and earn more following PE funds' investment. The sales and profits of the investees grew at average annual rates of 35.1% and 42.08%, respectively. This, in turn, benefits the economy as a whole since generating more revenues and profits creates a multiplier effect that is beneficial to other companies and sectors. Furthermore, companies implement best practices and boost productivity thereby enhancing the productivity of the economy

- Private Equity funds aim their investments primarily at medium and small-sized companies with a strong need for funds that do not necessarily have ready access to traditional financing. Accordingly, PE funds fill an existing gap to support economic development. In addition to capital, companies seek active partners to deliver additional value to the business, which is precisely private equity's specialty

Fund investors

- Investors who invest their capital in private equity funds also benefit since, in addition to diversifying their portfolios, they may obtain higher rates of return than those offered by traditional investment instruments. In this sense, the benefit in Mexico is not limited to a few private investors with large amounts of capital. Currently, through the Certificates of Capital Development (CKDs), Private Equity funds may access some of the funds managed by the AFORES (pension funds). Hence, the owners of pension funds – workers – may also benefit from returns provided by Private Equity funds

Government

Other major beneficiaries of this industry are governments at all levels. In addition to supporting the day-to-day government affairs in topics such as economic development, the PE funds provide support by increasing tax revenue. By increasing sales,

companies pay more taxes. But in addition, the PE funds typically implement fiscal transparency programs, and are diligent with tax payments of companies in their portfolios, also contributing to the amount of taxes paid.

Society in general

Perhaps the most significant effect of Private Equity funds is in society at large through positive consequences such as the following:

- First of all, the PE funds encourage job creation, through which more people join the economically active population and generate income that improves their condition and results in additional demand in the economy. The sum of jobs in the cases analyzed grew at an average annual compound rate of 13.81%

- Through the professionalization of companies, the PE funds also support the creation of well-paid jobs as in the case of redIT, promoting the increase of the population per capita income

- Increased competitiveness of investees also benefits consumers who have more options in the market

- Society also benefits from fund-encouraged social and environmental responsibility programs

The purpose of this document is to evidence that in Mexico, Private Equity funds play a key role in our country's economy. The PE funds not only support Mexican companies with capital but also by transferring know-how to increase competitiveness. This translates into higher growth rates to gain share in domestic and global markets.

We expect that the information herein will be useful for businessmen, investors, the government, and regulators to spread knowledge about the benefits of Private Equity and that in doing so, its participation in the economy converges towards countries with major activity where PE effects are most significant.





Success Stories

Success Stories

Arabela, strengthening sales force and expansion of operations

Background

Arabela is a Mexican company that was founded in 1990 by an executive of a transnational cosmetics brand and the work group of ProCorp (SINCA), a Private Equity fund pioneer in the Mexican industry, which funded Seed Capital in the amount of \$2 million dollars. Arabela sells cosmetics and other products through a wide network of representatives. Currently, it is the most successful Mexican company operating in this market.

The Private Equity Investment

Arabela is an interesting success case because, from its creation to date, the company has teamed up with Private Equity funds, which have been present throughout the business growth: from the start-up and growth stages, through professionalization, and internationalization. In the early 90s, the first Private Equity vehicle emerged in Mexico. It was known as SINCA, and acted as a hybrid instrument since it was a private vehicle and an open fund that became, through subsequent capitalizations, a publicly-traded company.

The SINCA ProCorp capitalizes and manages Arabela from the business plan in 1990 to its sale to Carlyle in 2007. In 1997, Advent International Fund became a shareholder. When Advent met Arabela's founder, the company was already a venture capital success story with a lot of potential, and was in the process of consolidating its presence in the Mexican market.

When Advent and ProCorp's investment period ended, Arabela's potential expansion and growth were still interesting, since Arabela was ready to start up operations in the South American market. Carlyle Mexico Partners (Carlyle) identified that Arabela's target market fitted the socioeconomic profile of the Mexican population, and saw an opportunity. After negotiating with Advent and ProCorp, Carlyle decided to buy their share in Arabela to continue its expansion.

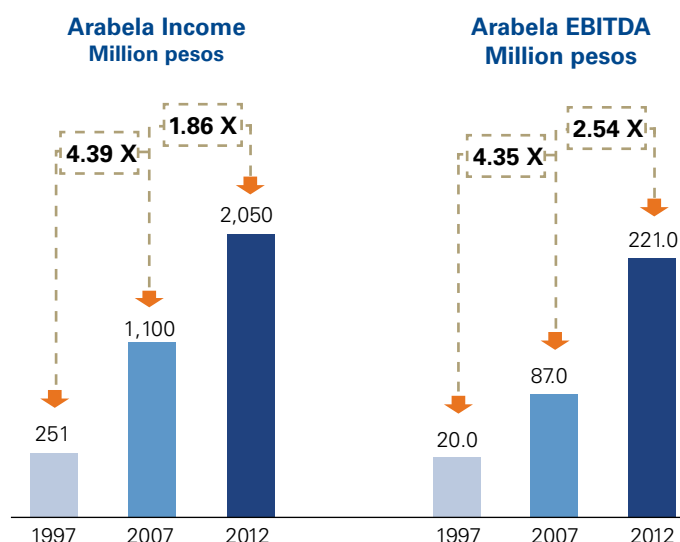
The Business Impact

Over its investment period, ProCorp supported the company in the introduction of new business lines. From being exclusively a cosmetic market-oriented company, Arabela diversified and included health and personal care, jewelry, lingerie products, and household goods, as well as products for children.

ProCorp saw the opportunity to create an truly national presence in order to multiply income. After completing the consolidation in the Mexican market, following its entry in 2007, Carlyle continued with Arabela's expansion plan toward Central America. One year after Carlyle's investment, Arabela was already operating in El Salvador, Guatemala, Honduras, and Nicaragua. By December 2012, the company operated throughout all Central America, with the exception of Panama and Costa Rica, which are currently in the process of being included. With Private Equity support, Arabela went from a business idea to 250 million pesos in sales during 1997, and more than 2,000 million pesos in 2012.

In addition to implementing operative changes and new technology systems, improving the distribution and logistics system, and strengthening the executive team, the Private Equity funds, each one over its period as shareholders, worked hard with Arabela's management to expand the client network known as "Damas Arabela" which went from 40,000 before 1997, to 120,000 in 2007, and over 200,000 by 2012.

Furthermore, during Carlyle's period, the plant installed capacity doubled and liquidity was provided to Arabela. For this purpose, a successful issue of debt certificates (debt placement) on the BMV was achieved in March 2011, which enabled Arabela to continue its expansion plans.



Company: Arabela

Sector: direct sale of several cosmetics and personal care items

Funds: ProCorp (1990-2007)
Advent International (1997-2007)
Carlyle Mexico Partners (2007 to the date)

Strategy: strengthening the sales force and both domestic and Central America business expansion

Impact: from a business idea, it became a regional company with a limited network of sales representatives, and later evolved into an organization with international operations, and more than 200,000 representatives

ProCorp investment was originally allocated to create and get the business started. Subsequently, ProCorp managed the business by setting up state-of-the-art practices in logistics, and expanding product lines. Carlyle's capital served to continue developing new business lines and to continue the expansion of Arabela's operation in the international market.

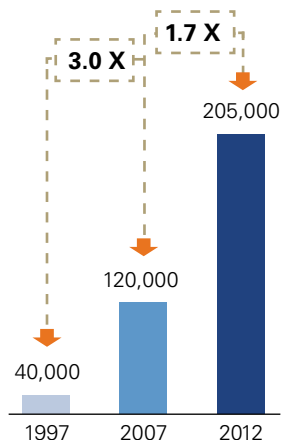
Multiplying Effect

Arabela's business model consists of developing the product and outsourcing its production. Both funds worked hard with Arabela's executive team to develop supply chains in order to ensure the availability of the product. This resulted in a positive multiplying effect since suppliers have developed, and grown together with the company.

Strengthened Self-Employment

In addition to a faster startup growth, by strengthening administrative practices and generating strategies to increase income by aggregating new business lines, the partnership between the funds and Arabela enabled a significant expansion in the number of "Damas Arabela" sales representatives. They are not Arabela's direct employees but clients who work independently, selling the company's products. In this way, Arabela became an important national self-employment promoter by incorporating more than 160,000 women over the funds' investment period. These employments encourage gender equality in the country, since "Damas Arabela" sales representatives are independent women who contribute to family income.

Self-Employment promoted by Arabela



- Beginning in 1997, the partnership between the funds and Arabela encouraged the creation of more than 160,000 self-employments that contributed to gender equality
- By the end of 2012, there were over 165,000 "Damas Arabela" in Mexico, and 40,000 in Central America
- The partnership with ProCorp enabled Arabela to get started and develop at an early stage; additionally, it allowed for institutionalization and professionalization thereof
- The partnership with Carlyle allowed Arabela to continue with a faster growth rate, achieve scale and expand internationally
- The corporate institutionalization and strength achieved by the funds enabled Arabela to be more competitive while meeting its commercial obligations

Success Stories

ARG, strengthening the balance sheet and ensuring credit lines for growth

Background

ARG is a leasing company, founded in Mexico in 2001, specialized in leasing car fleets, and pioneer in offering value-added fleet management services to small and medium-size entities.

The Private Equity Investment

In 2007, ARG had the opportunity to sell its leasing portfolio to close the investment cycle of the original investors, and to continue with the growth plans established by management.

Once seed capital was paid off, ARG's management needed resources to fund a new growth stage. Therefore, the company decided to seek for new partners. With an initial investment of 10 million dollars in two stages, Aureos Mexico Advisers was the first investor in the company. The invested capital allowed ARG to restart operations, and acquire new accounts that resulted in initial growth.

However, the business dynamism and the market opportunities required a greater investment to strengthen the balance sheet and enable new credit lines. After an exhaustive analysis, ARG and The Abraaj Group decided to invite Alta Growth as partner. Both The Abraaj Group and Alta Growth identified the opportunity of a growing market, boosted by a significant need for funding, in combination with the operation in a segment commonly neglected by traditional financing channels. Both Private Equity funds saw in ARG's management, a team with strong commercial skills to extend the client base; ARG's management played a critical role in the company's growth.

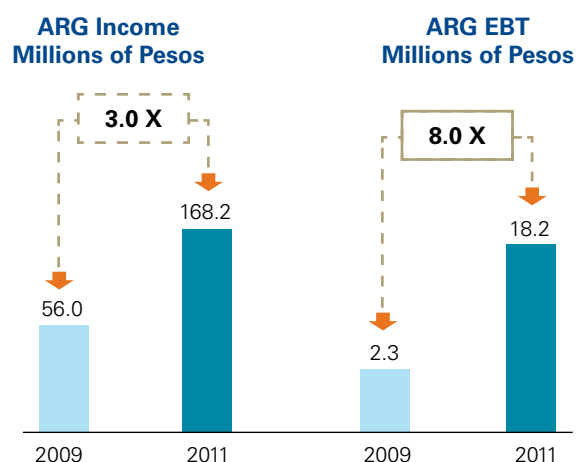
The Business Impact

Prior to the investment, both funds identified that ARG's key factor in business performance was acquiring credit lines that enabled them to operate the entity over the mid-term, since both operation and commercialization were solid. Using their contacts, they discussed the business case with the banks and established short and mid-term funding agreements.

From an early investment stage, the funds worked in creating a Corporate Governance entity and a

performance-oriented system, using tools as strategic maps, Balanced Scorecard, and establishing an ERP.

In terms of growth, ARG's good performance, and the solid management promoted by the funds succeeded in acquiring 500 million pesos in debt from the BMV that would be allocated exclusively to finance growth and place ARG in a new operative volume level.



Source: Company's website (<http://www.remexrentas.com.mx/grupo-arg/financiera/>).

Company: ARG

Sector: lease of fleets for small and medium-sized companies

Funds: The Abraaj Group (formerly, Aureos Capital) – Alta Growth Capital

Strategy: strengthening the balance sheet to acquire credit lines, being listed on the BMV, and performance-oriented management

Impact: the EBT multiplied eightfold, and the income multiplied threefold

In addition to improving ARG's performance, the funds facilitated the company's access to additional resources that will enable to achieve the growth goals over the mid-term.

Strengthening the balance sheet and accessing bank financing

The initial capital invested by the funds enabled ARG to strengthen its balance sheet in order to access bank financing. This, summed to improved performance and a positive impact on profitability, enabled ARG with the funds' contacts to acquire credit lines for growth.

With a sound balance sheet and income statement figures, ARG gained access to the BMV debt market to ensure the company's operations and growth over the short and medium terms. In addition to benefitting the standing of the company, the BMV list contributes to deepening the bond market in Mexico.

Financing to Key Segments

ARG is a company that provides financing and leasing options to a segment of entities (small and medium-sized) that are not able to acquire funds to finance their activities as easy as large corporates. The main reason is that this segment of companies do not have an attractive volume or do not have a sound financial base. Nevertheless, the segment is critical for the economic development of the country, since it represents an important share of economic activity and job creation.

The Abraaj Group and Alta Growth Capital investment in ARG, in addition to ensuring the company's future, enabled the company to significantly increase the volume of leases granted, which resulted in a benefit for a larger amount of companies.



Success Stories

ClickOnero (Red10), growing via acquisitions and institutionalization

Background

ClickOnero's origin date back to Red10, the second venture of Iceberg Investments, a group of young people who joined their capital and skills to create companies from scratch. In its early stages, Red10 used SMS messages and social networking to spread promotions of companies, such as Coca-Cola, to a wide list of users. The users clicked the "Like" button to companies' promotions, and in exchange, received points that could be used for SMS or cellular prepaid airtime.

The Private Equity Investment

In 2010, Angel Ventures and an Angel Investor committed capital and acquired a partnership in the company in order to develop the original business model that was based on publicity.

In 2011, Red10 saw the opportunity to incorporate its point system to the on-line sales business. To consolidate this new business model, it acquired ClickOnero, the largest on-line coupon company at the time. In 2012, Angel Ventures and Bravo Equity, a US capital fund, closed a new round of investment to support this new business model.

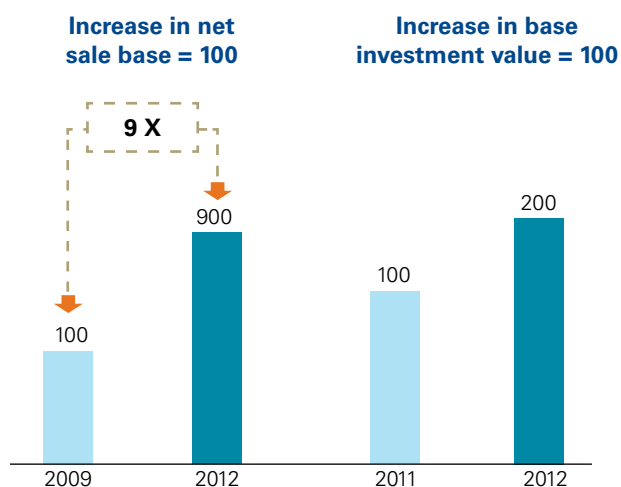
With the merge of the companies, Red10/ClickOnero acquired other competitors in Mexico: Let's Bonus, Groupalia, and Peixe Urbano. With these acquisitions, ClickOnero became the electronic sales, services and promotions company with the highest number of users in Mexico, even above competitors such as Groupon. This base has enabled it to explore other options, seeking the consolidation of e-commerce market in Mexico.

The Business Impact

Both Angel Ventures and Bravo Equity saw in Red10, and subsequent acquisitions, a great opportunity to enter into a market with high growth potential in Mexico. According to Angel Ventures data, electronic commerce had been growing at rates higher than 40% per year.

The number of internet users is growing rapidly, and exceeds 40 million. This results in a sound growth base for ClickOnero that is currently more than 4 million users. To date, equity investment has been primarily allocated to working capital and strategic acquisitions that have consolidated ClickOnero as the most important competitor in its segment.

Also, the company's legal structure has become more efficient. A Board of Directors was created to hold regular meetings with two independent directors. All of these strategic actions have served to position ClickOnero towards future growth.



Company: Red10/ClickOnero

Sector: promotions and sales via Internet

Funds: Angel Ventures

Strategy: consolidation via acquisitions

Impact: the acquisitions and strategic management have allowed ClickOnero to multiply sales, consolidating one of the largest Internet user databases in Mexico, and positioning the company for the future growth.

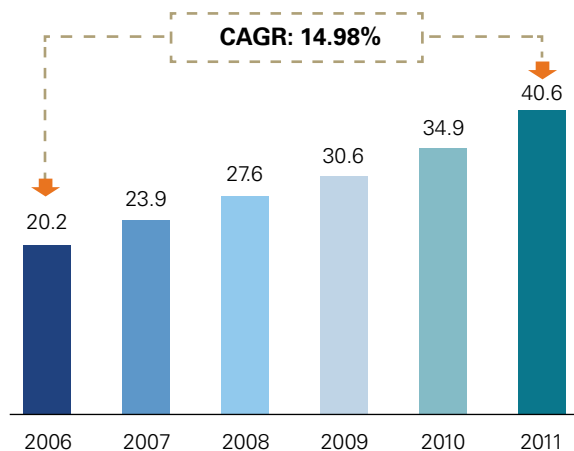
Angel Ventures' investment has allowed for ClickOnero to grow and consolidate via acquisitions, positioning it as one of the leading e-commerce companies in Mexico.

New Business Models

ClickOnero is a clear example of the new opportunities that are opening up for new business models based on internet, mobile telephones, and electronic commerce. Mexico still has a low user penetration as a percentage of total population when compared to other countries; however, the number of users and the electronic commerce are growing rapidly, creating a significantly large base in which companies such as ClickOnero, can operate successfully.

From 2006 to 2011, the number of internet users in Mexico grew at a CAGR of nearly 15%. As the percentage of population with access to internet and smartphones increases, opportunities for these kinds of business models are also growing.

Internet Users in Mexico (million)



Source: KPMG with information provided by the Mexican Internet Association [Asociación Mexicana de Internet] (AMIPCI, for its acronym in Spanish).

As the number of internet users grows, business models such as the one created by Angel Ventures and ClickOnero represent a great potential opportunity.



Success Stories

Docuformas, positive signs to markets to become a success financing story

Background

Docuformas is a leasing company founded in Mexico in 1996. This company is focused in leasing technology solutions, including computer equipment and printers, and the corresponding consumables. After incorporating several partnerships with equipment producers and strengthening their portfolio, in 2006 Docuformas became the first Mexican medium-sized company to issue public debt on the BMV for 100 million pesos.

The Private Equity Investment

In 2007, the company's founder decided to seek a partner to strengthen its capital and to continue funding growth; thus, it reached out Aureos Latin America Fund. Aureos, who had invested in the leasing sector, was well acquainted with the market and its potential. Therefore in January 2008, it decided to invest 10 million dollars in Docuformas.

The opportunity was evident: injecting growth equity in to a company with good prospects that supported small and middle-sized companies in transforming capital expenses into operative expenses. This was very attractive since it enabled them to optimize their cash flow.

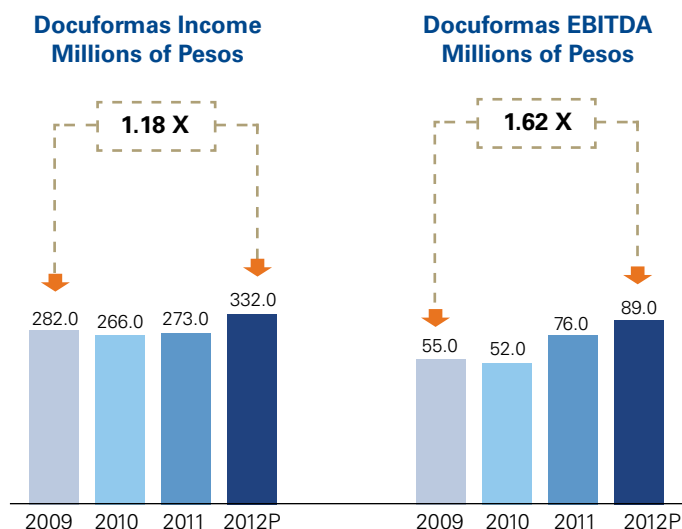
The Business Impact

The first objective for The Abraaj Group was that Docuformas reached a 100 million dollar portfolio, which was achieved in six months. Then, although difficult circumstances arose as a result of the financial crisis, Aureos seized upon its contact network to pledge credit lines that allowed the company to continue with their growth plans.

In February 2009, Docuformas faced the need to renew the commercial paper that was issued in 2006, in an uncertain environment. With the support of Aureos, the company entered into a pledge with NAFINSA that enabled it to renew the commercial paper, and send a positive signal to financial markets.

This ensured short-term growth; however, the new portfolio required more funds. Aureos went ahead with the task of obtaining additional credit lines that enabled medium-term growth. This virtuous financing cycle continued up to 2012, when Docuformas securitized its portfolio, and obtained more than 300 million pesos without any need for pledges.

In addition to the acquisition of funds, Aureos worked strongly in the company's institutionalization and professionalization process, encouraging the implementation of Strategy Maps and Balance Scorecard. Although Docuformas is not considered a high environmental impact company, very high standards were established on this matter, which have made it a referenced case in the industry.



- Company:** Docuformas
- Sector:** lease of computer equipment and printers, and the respective consumables
- Funds:** the Abraaj Group (formerly, Aureos Capital)
- Strategy:** ensuring credit lines and operative professionalization
- Impact:** 17.4% growth projected in earnings before tax as of the end of 2012

The partnership with The Abraaj Group allowed for Docuformas to pledge growth equity over the mid-term.

Success Story of financing of a middle-sized company

Docuformas already had a successful track of financing when it became the first medium-sized company to place debt on the BMV. However, the partnership with Aureos and the acquisition of the pledge with NAFINSA enabled it to start a virtuous financing cycle that guaranteed the continuous acquisition of funds in public and private markets.

Currently Docuformas is mentioned as a reference by the federal government, through the Deputy Ministry of the Small and Medium-Sized companies (Pyme) of the Ministry of Economy (ME). From its first placement in 2006 to date, the company has made 9 debt placements in the BMV, obtaining more than 550 million pesos.

Support in optimizing the flow to small and medium-sized companies

Apart from being a successful business, Docuformas plays a key role in the Mexican economy, where most companies are small and medium-sized.

Docuformas enables these companies to use their resources for key activities, thereby eliminating the need to invest their own capital in technology solutions. Thus, Docuformas clients can optimize cash flow and use it in growing their activities, thereby generating growth for the country.

Docuformas' activity allows several small and medium-sized companies to optimize their cash flow and focus their equity on growing their activities, so generating development for the country.



Success Stories

Dufry, operational efficiency and market consolidation as a profitability growth strategy

Background

Dufry is one of the largest global operators in the travel retail business. With head offices based in Basel, Switzerland, in 2004 the Company operated 220 duty-free shops specialized in the retail sale of various items for international travelers in 27 countries.

The Private Equity Investment

Advent International Corporation contacted Dufry for the first time in 2002. Though, at the time of the investment, Dufry was the fourth largest industry group globally, Advent identified an evident opportunity to consolidate a market with huge potential growth, and the possibility of a more efficient operation that had many areas of improvement. Additionally, Advent was familiar with the business since it had already invested in a Mexican operator.

The Business Impact

One of the first changes implemented by Advent after the acquisition was the replacement of the CEO, COO, and CFO with a new executive team with a performance-oriented philosophy.

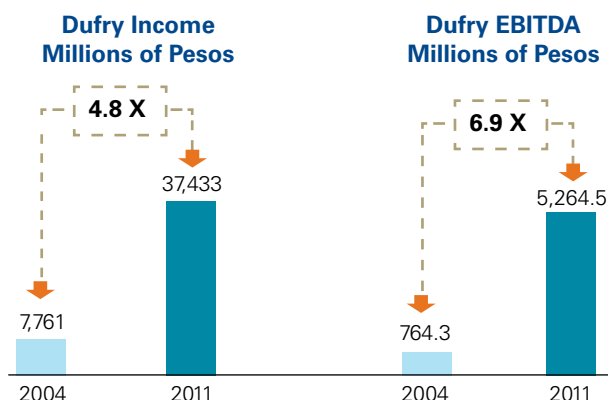
Dufry did not operate homogeneously across all countries, and Advent identified more than 280 different IT systems in operation, as well as several processes that complicated data consolidation. This implied a lot of deficiencies, therefore the new management team worked to unify the systems and processes in all Dufry stores. By establishing a series of controls the operation became more efficient and revenue generation was positively impacted.

The need to reposition the brand in the market was also identified. Therefore the name was changed and an homogeneous image in all of Dufry's stores was created. Additionally, debt was renegotiated and new agreements were established with airports to ensure the operation over the medium term, and to minimize the risk that concessions were granted to other competitors.

The capital injected by Advent strongly supported Dufry's growth which benefited from the fund's wide experience in mergers and acquisitions. Dufry established a proactive process to acquire competitors, with the goal to place Dufry as the world's largest operator.

This activity also helped to strengthen and diversify the revenue streams by purchasing companies in different segments.

A clear example was the purchase of Hudson News, an operator of airport convenience stores specialized in the sale of newspapers, magazines, and other publications for international and local travelers. All the purchases contributed to achieve Dufry's strategy to increase the business profitability.



Source: <http://www.dufry.com/en/Investors/FinancialReports>

Note: Since the original information is in Swiss francs and was translated to Mexican pesos, an exchange rate effect is applicable due to the peso devaluation over the period.

Company: Dufry

Sector: retail sales of various items for international travelers primarily in airports

Funds: Advent International Corporation

Strategy: enhancing the operative efficiency and growth through market consolidation

Impact: from being the fourth global operator with presence in 27 countries, it became the most important operator in 45 countries

Advent's investment transformed Dufry from being the fourth operator of duty-free stores with strong areas of opportunity to become the world's most important operator with world-class practices.

Success story of consolidation through mergers and acquisitions

Dufry is a clear example of how a team with experience in mergers and acquisitions can consolidate the worldwide market to transform a company into the most important global. However, the acquisitions promoted by Advent not only helped as a significant vehicle of growth but supported Dufry in diversifying its income sources and ensuring the long-term sustainability, as well as maximizing the value for shareholders.

Listing on international markets

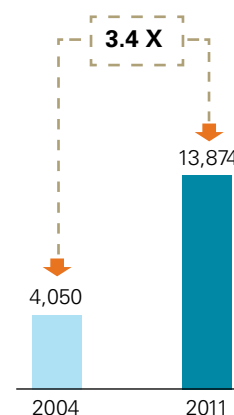
In addition to the successful strategy of mergers and acquisitions, Dufry is also an example of how the experience of a fund can support a company in accessing the public equity markets, and ensuring equity flow for growth. Advent supported Dufry in getting listed into the Swiss stock exchange, and then in the Brazilian ones.

Job creation

The successful partnerships between funds and companies not only have a positive impact on shareholders but create positive externalities that benefit both the society and the economy of the operating countries. From 4,000 employees in 2004, Dufry employed nearly 14,000 people in 2011.

The partnership between Advent and Dufry, further to delivering value to shareholders, contributed positive externalities by generating almost 10,000 additional jobs.

Dufry's Jobs



Success Stories

Genomma Lab, income sustainability, product development, and diversifying risk

Background

Genomma Lab was founded in 1996 in Mexico, as a company engaged in the production of infomercials for personal care products. Nowadays, it is the only pharmaceutical and personal care products trading company listed in the Mexican stock exchange (BMV) with one of the most liquid shares in the market. It holds a wide portfolio of leading products in its segment, it's the country's largest television spot generator, and it has revenues over 600 million dollars. Genomma Lab successfully competes with consumer products transnational corporations and with pharmaceutical laboratories that have been operating in the country for a longer time.

The Private Equity Investment

The relationship between Nexxus Capital and Genomma Lab began prior to their partnership, since the fund founders were the company's financial advisors and supported it when the laboratory received several buyout offerings from third parties. By the end of 2004, the fund and Genomma Lab agreed upon an investment of 30% of the company's equity.

The Business Impact

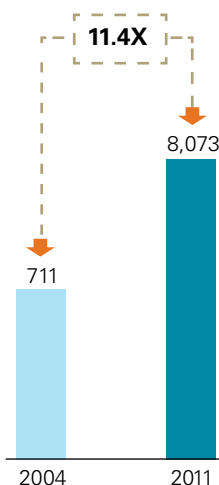
From an early investment stage, it was agreed that Genomma Lab's partners would be engaged in operating the business and the fund would focus on improving its resource and risk management. Nexxus Capital worked with Genomma Lab in diversifying the portfolio since, up to 40% of income was concentrated in a single client.

Additionally, the commercial and marketing strategy was analyzed in detail by evaluating the relation of advertising expense, sales, and efficiency of distribution channels. It was decided to change the marketing strategy by replacing infomercials with television spots. Also, courier services for product delivery ceased.

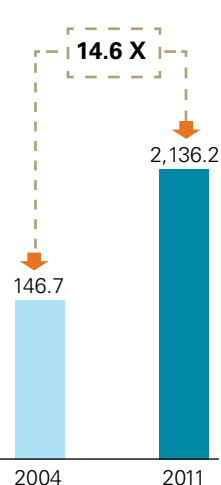
A critical element of success in the investment was to focus risk management analysis on a product basis, limiting the total equity invested in each product in order to diversify risks. Likewise, the process of analyzing the products and brands to be included in the portfolio was strengthened in order to maximize earnings. This enabled Genomma Lab to develop and strengthen its product portfolio.

Nexxus Capital saw in Genomma Lab a sound operation with a high potential growth platform, and the new partners agreed to benefit to the fullest from individual experiences.

Genomma Lab Income
Million Pesos



Genomma Lab EBITDA
Million Pesos



Company: Genomma Lab

Sector: commercialization of personal care and pharmaceutical products

Funds: Nexxus Capital

Strategy: focus on diversifying the portfolio and managing the risk. Restructure of the commercial strategy and strengthening of the product development process.

Impact: income increased 11.4 times, and profit grew 14.6 times.
A 72.9% IRR, and a sale multiple of 18.5x
The product portfolio went from 56 to 742, and jobs increased from 240 to 1,127

The partnership between Nexxus Capital and Genomma Lab leveraged its ability to become a world-class company.

Since first listed on the Mexican Stock Exchange, Genomma Lab's share became the ninth more liquid of the market, and went from \$8 pesos⁽¹⁾ in June 2008, to \$27 pesos as of December 31st, 2011.

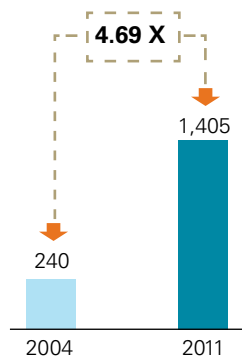
Community Impact

During the partnership with Nexus Capital, Genomma Lab strengthened its social responsibility programs. Genomma Lab's foundation was created to support national and Latin American natural disaster victims. Genomma Lab's employees have the goal to plant more than one million trees.

Additionally, it is recognized as an entity committed to social responsibility, and for its programs to create a healthy and family oriented work environment for its employees.

The number of Genomma Lab's employees went from 240 in 2004 to more than 1,400 in 2011.

Genomma Lab's Jobs



The partnership with Nexus Capital also allowed Genomma Lab to strengthen its community impact by creating the Genomma Lab foundation, and several social responsibility programs.

⁽¹⁾The split made by the company in 2011 has been considered; the market listing price was MXP\$16.00.

Success Stories

HOMEX, changing the business model and focusing on an improved cash flow

Background

Homex was founded in Sinaloa in 1989 as a commercial space constructor and in 1991 the company entered the social interest housing market which became its most important niche.

The Private Equity Investment

In 1999 Homex and Nexxus (ZN Mexico Fund) partnered to generate an important transformation which resulted in Homex becoming the most important housing developer in Mexico. They accomplished this with a clear growth strategy which continued even after the exit of Nexxus.

The Business Impact

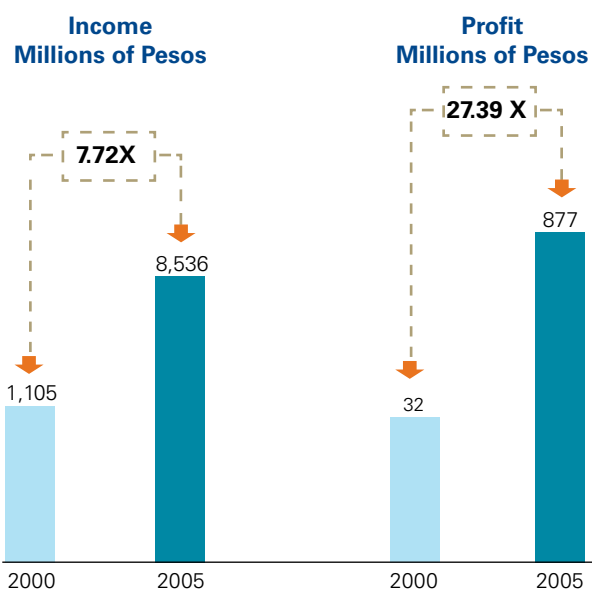
There were various changes that permitted the profound transformation of Homex. Homex adopted a new orientation towards the strengthening of revenues by focusing on the sales process and the administration of cash flow. The company also substantially changed a large portion of their internal processes.

They changed the business model from one oriented towards construction to one oriented towards sales, measuring success in terms of houses sold instead of houses built.

The investment process was streamlined to favor commercially successful developments and eliminate those that were not successful.

They eliminated the dependency on bridge loans which had resulted in continued investment in non-successful developments and centralized processes such as treasury and purchasing as well.

During Nexxus Capital investment period, HOMEX increased its income at an annual average rate of 93.87%.



Company: Desarrolladora HOMEX

Sector: construction of social housing

Funds: Nexxus Capital

Strategy: changing the business model to focus on the sale process. Streamlining the investment process. Centralizing treasury and purchase areas to take advantage of economies of scale

Impact: income multiplied 7.72 times, and profit multiplied by 27.39. The construction period for a house went from 39.5 weeks to approximately 7 to 10 weeks. Jobs went from 1905 to 7,337. The company was listed on the stock exchange

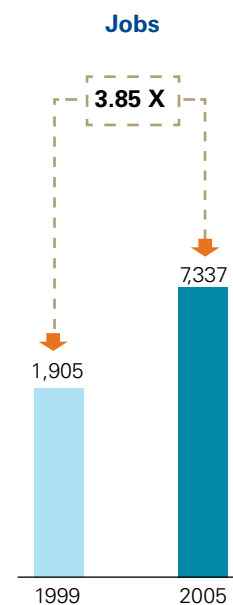


Additionally, HOMEX was listed on the BMV, and was the first Mexican construction company (and the only one as of this date) listed on the New York Stock Exchange. This provided it with access to additional funding sources that reduced its dependency on loans.

The Community Impact

In addition to improvement in revenues, profits and processes, Homex created 9,773 jobs directly contracted by the company, thereby strengthening the economic development of the communities in which they operate.

Additionally, Homex strengthened its community support programs with the construction of schools and the implementation of adult education programs. In each community in which Homex operates, they have established a hard floor program to improve the quality of marginalized homes.



In addition to strengthening their revenues and improving their profits, Homex positively impacted its community by creating over 5,400 additional jobs and by establishing high impact socially responsible programs.

Success Stories

HTC, focus on new accounts attraction and strengthening a good operation

Background

HTC or Hispanic Teleservices is an inbound call center founded in Mexico by two MBA classmates, with operations in Monterrey and Guadalajara. The company provides specialized telemarketing services focused on the U.S. Hispanic market.

The Private Equity Investment

In 2005, Carlyle decided to buy HTC and maximize the client attraction process in order to strengthen the company's revenues.

The Business Impact

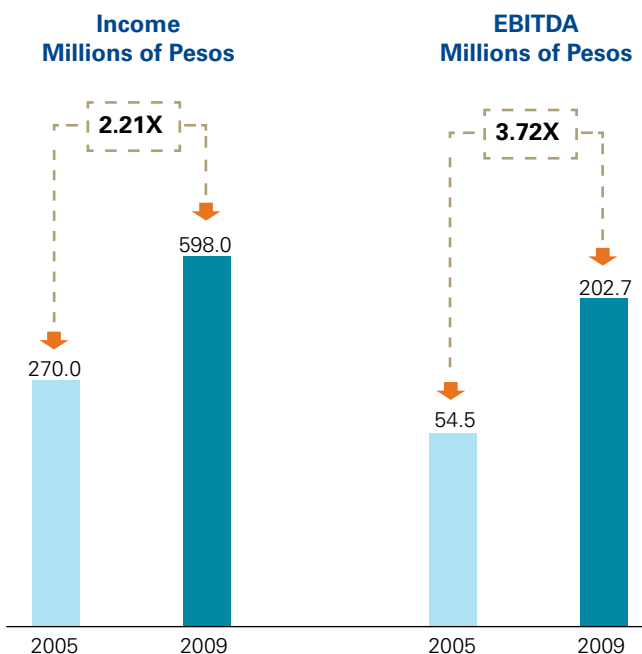
Carlyle quickly realized that HTC's excellent operational capacity was limited by a weak client attraction process. The first key decision that they had to make was to replace the marketing director (founder of the company) in order to strengthen the client attraction process and revenues.

The marketing process was oriented towards the attraction of new clients and attention to existing clients.

Carlyle also leveraged their contacts in other industries to strengthen the portfolio and became certified in ISO 2700.

Additionally, they identified the necessity to create a detailed profile of the final clients. Hispanics living in the United States – a specialized consultant was contracted to define this profile. The focus on human resources was also a key aspect of success. They created a solid management team.

Carlyle immediately identified the opportunity to improve the marketing process and made key decisions in this regard.



Company: Hispanic Teleservices Corp.

Sector: call center specialized in providing services to the Hispanic market in the USA

Funds: Carlyle

Strategy: key changes in the marketing area, and in the new accounts attraction process. The fund's relationships were also used to strengthen the client portfolio.

Impact: multiple of 3.4 times in the invested equity at the time the fund exited, and 78% IRR. The EBITDA multiplied by 3.72, and the number of employees increased from 900 at the time of the fund investment to 2,500 at its exit.

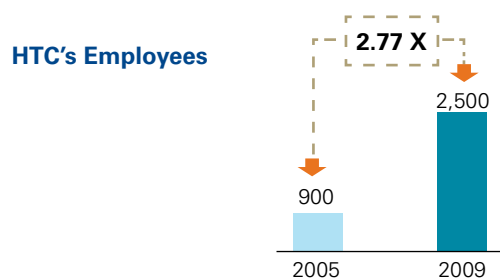
Creation of critical mass

Carlyle limited the percentage of the investment destined for payment to shareholders and invited them to remain with HTC. This permitted an alignment of incentives of investors which facilitated the decision making process.

Additionally, this allowed for the dedication of a significant portion of the capital invested by Carlyle to strengthen the marketing process as well as HTC's revenues. The strengthening of revenues and profit allowed for the creation of a critical mass that attracted an important strategic buyer. When the company was acquired, HTC's metrics were the best worldwide. This allowed for the recuperation of 3.4 times the invested capital.

Employment for key population segments

The Carlyle – HTC association allowed for an additional economic flow in Monterrey and Guadalajara with the creation of over 1,600 direct employees in addition to the employee base that existed prior to the investment. The majority of jobs created were for key population segments such as students and single mothers. Additionally HTC continues to strengthen its philosophy of creating attractive working environments including cafeterias and day care centers for working mothers.



In addition to capital paid to shareholders, Carlyle injected growth capital in to the company which permitted the expansion of operations and the creation of over 1,600 jobs, offered to key population segments.



Success Stories

IGS opportunity in NAFTA to consolidate an industrial property portfolio

Background

IGS was founded as a building company in 1990, but following the execution of the North American Free Trade Agreement (NAFTA) and the increased production that it could represent for Mexico, its founder saw an opportunity in construction and lease of industrial real estate, primarily targeted to American and Canadian companies.

Additionally, there was a trend for global companies not to own real estate assets in order to concentrate all the equity in their production or research and development processes. This created an additional opportunity for firms, such as IGS.

In addition to constructing turn-key industrial projects for future leasing, IGS entered into Sale and Lease Back transactions, consisting in purchasing industrial real estate, and then leasing them to their original owners over the mid and long terms.

The Private Equity Investment

In order to increase the number of transactions IGS created a Real Estate Fund, Mexico Real Estate Investments, LLC (MREI), and sought investors in the USA and Mexico. Funding did not go as expected until Nacional Financiera (NAFINSA, for its acronym in Spanish) decided to support and back up IGS by committing to contribute 10% of the amount provided by any other investor. Since then, the fund attracted family offices and other investors.

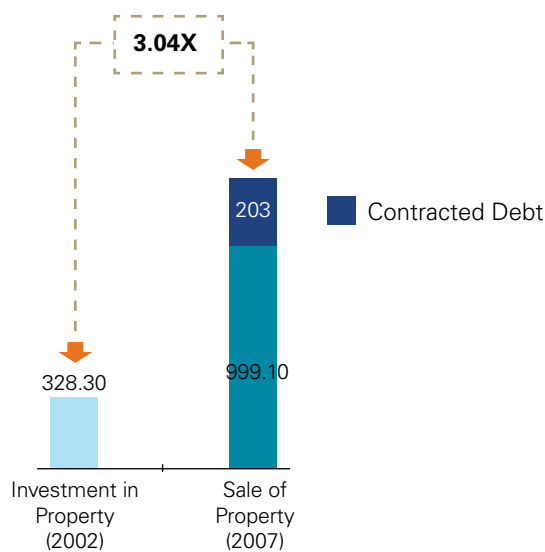
In 2001, funding was closed, and in 2002, investments started in various industrial properties all over the country. In total, from 2002 to 2005, 34 million dollars were invested in industrial properties and in an office building.

The Business Impact

In 2005, the fund had to start the investment closing process to be able to give back the equity and return to investors. Prudential got interested in the industrial portfolio, which they purchased in 2007 in the amount of 93 million dollars. At the same time, the negotiation for the sale of the office building was executed. IGS received a total of 110 million dollars for the whole portfolio, delivering over 20.3% in annual return to its investors.

Nowadays, IGS continues to operate as a Real Estate investment fund, and it is primarily focused on sectors such as: the industrial in which real estate is developed, purchased, and managed; the commercial sector, engaged in the construction of shopping centers; and the housing sector that works as a land bank for social housing building companies.

IGS' Real Estate Portfolio



Company: IGS

Sector: Industrial Real Estate

Strategy: development of an industrial real estate portfolio and sale to Prudential

Impact: net return over 20% annually, in US dollars

IGS created an industrial real estate portfolio that was sold to Prudential to deliver a 20.3% annual return in US dollars to its investors.

Opportunity in NAFTA

The positive impact of NAFTA in Direct Foreign Investment (DFI) flows from 1994 is evident. From 1980 to 1993, the annual FDI average as a percent of GDP was 0.83%; while for the 1994-2000 period, it increased to 2.3%, and for 2002 to 2012, to 3.01% of GDP. IGS foresaw this behavior in the FDI flows, and took advantage of an interesting opportunity that turned into an attractive return to its investors.

Working capital release to increase production

The activity of funds, such as IGS, enables manufacturing companies to release the equity invested in real estate to fund their production processes. As with a leasing company, IGS' clients can transform their capital expenses or CAPEX into operating expenses, which allows them to defer the expense of the purchase of a property over several annual periods. Sale and Lease Back agreements can last up to 20 years.

As with a leasing company, IGS' operation allows its clients to transform their capital expenses into operating expenses to finance their manufacturing activity.



Success Stories

Laboratorios Kendrick, changing the commercial model and aligning of interests

Background

Kendrick was founded in 1946 as a family business specializing in the production of generic medicines. During its first 60 years Kendrick strategy was focused on the public sector and even in 2005 more than 80% of their sales were concentrated in such sector.

The Private Equity Investment

In 2005 Kendrick and Darby Investments became partners and aligned their interests to transform the laboratory in to the fastest growing in Mexico, reversing its high dependency on the public sector. In 2005, Kendrick's owners sought to exit their investment by selling 100% of their equity. Even though in 2005, the Mexican generic drug market was incipient, Darby Private Equity was interested in the opportunity and accepted to acquire the equity under the condition that the operating partner stayed as a shareholder, working along with Darby.

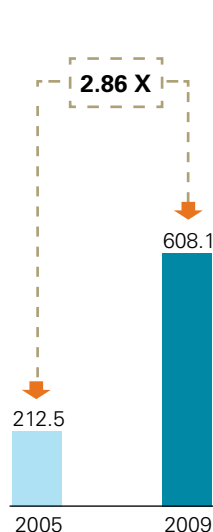
The Business Impact

At the time of the investment, Darby identified Kendrick's strong dependence on the public sector and the urgency of an immediate change. Following a failed attempt, they recognized the necessity to change their strategy and contract a team specialized in sales of massive consumption goods. This decision lead to a change in the paradigm of the company's sales model to one not yet tested in the industry.

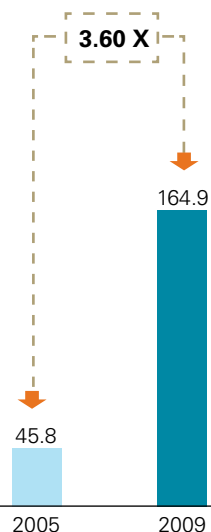
Instead of focusing on doctors, they decided to concentrate the sales effort on the point-of-sale (dispatchers in pharmacies and convenience stores). All of the company's processes, including manufacturing became oriented towards the new commercial model, which in turn made the operation, more efficient. Four years after the investment, Kendrick was selling over 70% of its production to the private sector, had a strong brand presence and was the pharmaceutical company with the highest growth in Mexico.

Darby's vision of changing the industry's prevalent commercial model was fundamental to Kendrick's success and resulted in the change of all its processes, including manufacturing.

Kendrick Income
Millions of Pesos



Kendrick EBITDA
Millions of Pesos



Company: Laboratorios Kendrick

Sector: pharmaceutical sector specialized in generic drugs

Funds: Darby Private Equity

Inversión: 53% of the company's equity

Strategy: total shift of the commercial model and alignment of shareholder and executive interests, preparing the business for a sale from day one of investment.

Impact: Kendrick became the laboratory with the highest growth rate in Mexico. Income multiplied 2.86 times and EBITDA, 3.6

Alignment of interests and preparation for the sale

From day one of the investment, Darby prepared Kendrick for a sale four years later. In addition to having the vision to contract a team of professionals from outside the industry, Darby succeeded in aligning their incentives with those of the new management; an important part of the management team's reward was based on the sale price of Kendrick.

Additionally, the scheme favored an early sale and awarded management significant responsibility in the sales process. This resulted in the alignment of incentives of management with those of the proprietors. To the market Kendrick was a very interesting laboratory, reinforced by the fact that from the early stages of the investment they were receiving offers. Nevertheless, they decided to wait for the strategy to materialize.

Institutionalization and corporate governance

Prior to the Darby investment, Kendrick was a well administrated company. Nevertheless, the Darby investment allowed them to take important steps in the process of institutionalization. They substituted personnel, including at management levels. They established periodic board meetings with external members. They created internal audit committees such as, rewards and budget, and they changed the external auditor.

Darby also played a key role in the process of institutionalizing the company and converted it in to a leader in its segment making it interesting for many potential buyers.



Success Stories

Micel, investing in infrastructure to service a larger number of users

Background

After an attempt to enter the financial market of cellular telephone equipment (Finestrella), Micel's founders identified a more interesting opportunity and created a business model to facilitate the acquisition of cellular telephones and mobile plans for people who do not meet the requirements for a post-paid plan directly with an operator.

The Private Equity Investment

Fomin, an investor in IGNIA, introduced Micel's founders to the Private Equity fund. IGNIA is one of the few funds in Mexico focused on investing in early-stage businesses, oriented towards the base of the socioeconomic pyramid. Consequently, it immediately identified the project's potential.

In Mexico, there are more than 95 million cellular telephone users, and more than 85% of them are prepayment users, many of whom are not candidates for a post-paid plan with the cellular telephone companies.

Micel offers a solution to this problem through an advanced algorithm developed in-house that identifies suitable candidates (with a low probability of becoming delinquent debtors) and grants them a plan.

In an initial stage in 2010, IGNIA invested 4 million dollars in Micel, and during a second stage in 2011, along with 3 other Silicon Valley funds, 11 million dollars were additionally invested.

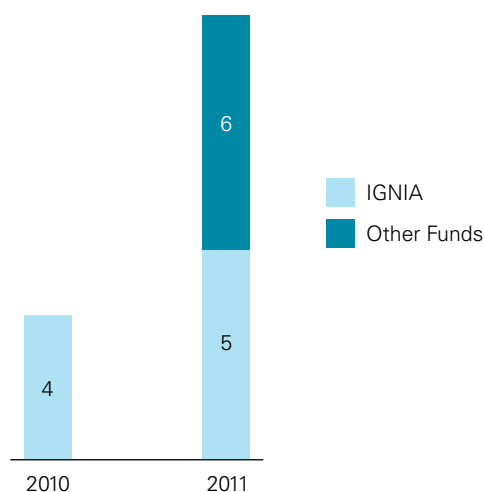
The Business Impact

Micel's most important intellectual property is its credit algorithm. The partnership with IGNIA has enabled the company to leverage the experience of the fund's professionals in management and strategy to improve its management processes and focus on a critical route that enhances performance.

Likewise, the IGNIA-Micel partnership has made processes more efficient, and has reduced costs to reach a stage that enables them to minimize the new user attraction cost in order to generate further profitability.

In addition to injecting the resources required to refine the algorithms, the equity invested by the funds allowed Micel to expand its infrastructure to service a higher number of users.

Micel's investment rounds
Million Dollars



Company: Micel (Finestrella)

Sector: provider of cellular telephone plans to users that are not candidates for traditional operator plans

Funds: IGNIA

Strategy: refinement of the algorithm and further operative efficiency

Impact: significant increase in client base

IGNIA's investment in Micel allowed for improvement the client portfolio, and expansion in the ability to attend to a higher number of users.



Investment in a company that meets a basic need

Cellular telephone and mobile internet access are services already considered a primary need for the population. At homes where people may not own a vehicle or where houses do not have the minimum living standards cellular telephones are present since they are an alternative to be communicated.

According to a study by the Inter-American Development Bank jointly with Fundación Telefonica, cellular telephone demand is inelastic in relation to income reductions and elastic regarding income increases. In Mexico, there are more than 95 million cellular telephone users who represent approximately 85% of the population (assuming that each person only holds one line) who have a cellular phone. Out of these 95 million, 85% is made up of prepaid users, most of whom do not have a credit card or cannot provide proof of their income to have access to a postpaid plan, although they can afford it. This means that there are more than 80 million prepaid plan users who are potential clients of a Micel plan.

In the September 2012 edition of Time magazine, former U.S. president, Bill Clinton indicated that applications accessible through a mobile telephone are a tool that will change the world. However, to

access these applications a smart phone is needed, and to date only 20% of mobile telephone users in Mexico use a smart device. Micel gives access to smart phones for people who otherwise would not be able to have one.

This represents an excellent business opportunity because Micel provides the opportunity for internet access via a smart phone to a significant segment of the population that otherwise would not receive the service from telecommunication operators.

Micel's plans also allow for users to obtain a smart phone with internet access without paying in cash, and to get significantly better rates than for prepaid plans since a secure revenue stream allows operators to offer more competitive rates.. In this way, a plan such as Micel's generates a benefit for all: the company, the users, and the operators.

The social impact is very important because people at the base of the socioeconomic pyramid use a high percentage of their income on prepaid plans, and having access to post-paid plans and lower rates can save their income to cover other needs. In addition, Micel's plans open the doors to the world via internet access for most of the population.

¹¹ Inter-American Development Bank and Fundación Telefonica: Telefonía Móvil y Desarrollo Financiero en América Latina [Mobile telephoning and Latin America Financial Development]

Micel's partnership with IGNIA has an important social impact because it allows users at the base of the socioeconomic pyramid to access the telephone service at more competitive rates than prepaid plans, thereby saving their income to cover other needs.

Success Stories

MMCinemas, a viable growth strategy along with a disciplined investment process

Background

MMCinemas was founded by Grupo Multimédios in 1981, the year when it opened its first cinema in Monterrey, Nuevo Leon. In 1994, MMCinemas had 14 complexes and 47 screens in the north of the country. By the mid 90s, the Mexican film exhibition industry experienced a transformation with the introduction of modern format cinemas: multi-screen theaters, with more choice in beverages and food, and frequently located in shopping centers.

The industry experienced a very competitive environment as a result of high investment rates and the growth process by new national (Cinemex) and international (Cinemark) players, as well as already established players, such as Cinepolis and MMCinemas.

The Private Equity Investment

In 2005, Grupo Multimédios decided to divest some of its non-strategic assets and opened the sale of MMCinemas through a competitive process that awakened Southern Cross' interest.

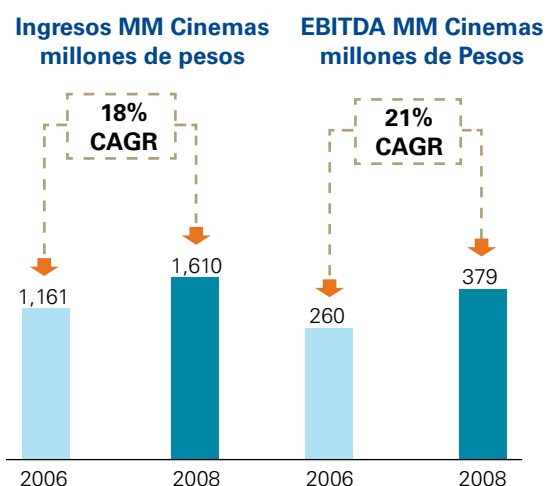
Evaluating MMCinemas' merits as an independent entity was difficult because the company's operation was strongly related to the rest of the group. As a result, several potential buyers decided to leave the process.

Southern Cross decided to continue studying the opportunity for several months making a detailed

analysis of the assets and the complexities to divest it from the Group. Likewise, Southern Cross made a deep analysis of the industry, which enabled it to develop an attractive investment thesis, and a very specific strategic plan. In 2006, Southern Cross entered into an agreement with Grupo Multimédios and acquired MMCinemas, jointly with a group of co-investors which included Morgan Stanley and the Davis family.

The Business Impact

At the time of the purchase, MMCinemas was the third most important player in Mexico. The company's management team was excellent but incomplete, since the financial and publicity sales areas were managed by the holding. From a market point of view there was a low penetration of screens per inhabitant in Mexico, as compared to developed countries. This low penetration was evident in the small and medium-sized cities. However, in large cities, particularly in the Federal District (Mexico City), the level was similar to that of the most developed markets. Under this framework, Southern Cross developed and executed an aggressive but specific growth strategy:



Company: MMCinemas

Sector: film exhibition

Funds: Southern Cross Group

Strategy: aggressive growth through a disciplined investment process in new cinemas, and acquisition of smaller-sized competitors, as well as the strengthening the concession and publicity sales business

Impact: income increased at an 18% CAGR, EBITDA at a 21% CAGR and 200 new screens were added to the operation (28% increase). MMCinemas consolidated as the second largest operator in Mexico

1. Reinforcing the Management Team

A new CFO and a marketing and publicity sales team specialized in films were hired. The new finance team established strict investment processes through which the best growth opportunities were selected. Additionally, a board of directors with different committees was established, an efficient ERP resource management system was implemented, and a performance-based retribution program was established.

2. Aggressive growth in new cinemas

While main competitors grew in Mexico City, Southern Cross analyzed the country's internal market, and focused its growth strategy outside of the capital, where there were fewer number of screens per habitant. This enabled them to take advantage of the strong growth of new shopping centers all over the Mexican Republic to set up cinemas as anchors so as to secure places and create entry barriers to other players. This strategy proved to be successful since capacity increased by 28% from 2006 to 2008. This represented 200 additional screens, all of them outside of Mexico City thereby becoming the second largest film exhibitor of the country.

3. Acquisition of smaller-sized competitors

MMCinemas acquired two small regional chains that were successfully integrated in to the national film exhibition network.

4. Further business development of concessions and publicity sales

The new marketing team favorably renegotiated the beverage and food concession agreements, and strengthened the publicity income, which were almost inexistent at the time of the purchase.

The successful implementation of this strategy translated into a high growth level. MMCinemas was the company with the highest growth in the industry over the period 2006-2008, also experiencing an important profitability improvement. In 2008, the Southern Cross' strategic plan was implemented completely and MMCinemas was sold to a national strategic investor.

The growth strategy created by Southern Cross allowed aggregating 200 screens and consolidating MMCinemas as the second cinema operator in Mexico.

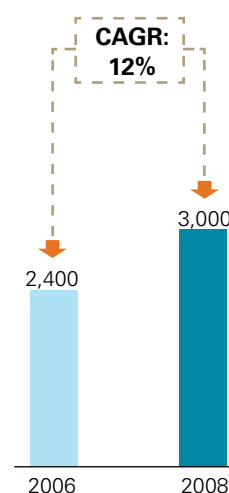
More entertainment choices

MMCinemas acquisition by Southern Cross contributed to increasing first-level entertainment choices in municipalities that did not have enough modern format cinemas. Likewise, it contributed to speeding up the establishment of modern shopping centers in such locations because cinema complexes are one of the anchors necessary for certain kind of commercial developments to be possible.

Over the 2006 to 2008 period, MMCinemas was the film exhibition company with the highest growth in the country, increasing the number of screens by 28%, primarily focused on small municipalities with low penetration of screens per habitant.

MMCinemas' growth also allowed the creation of 600 new jobs from 2006 to 2008.

MM Cinemas' Jobs



In addition to the creation of 600 additional jobs, Southern Cross' investment in MMCinemas expanded the entertainment choices in several municipalities of the country.

Success Stories

Punto Clave, growth equity and strategic planning for the development of a key sector

Antecedentes

Punto Clave was founded in Mexico in 2005 in order to offer innovative solutions in the electronic payments industry. With over 12 years of experience in the sector, the two founders have been pioneers and promoters of the sector development in Mexico. Punto Clave executed its first bank transaction at point-of-sale terminals via internet and also installed the first wireless bank terminal at a Mexican gas station.

The Private Equity Investment

For its creation, Punto Clave's founders invited an Angel Investor that provided Seed Capital, who sought to exit in 2010. The founders, sought growth equity and a partner which added value to the business, in addition to cash to pay the Angel Investor and pay off some liabilities. Therefore, they turned to Private Equity funds. After a long due-diligence process, Newgrowth Fund, a Mexican PE fund focused on small and medium-sized companies, decided to invest in Punto Clave.

In addition to two founding partners that were very well acquainted with the industry, who have developed a sound and innovative technology platform and already had a client service vocation, Newgrowth Fund identified a huge potential growth market because of the low penetration of electronic payments in Mexico (in the country, for every 1,000 habitants, there are 4 Point-of-Sale Terminals while in Brazil there are 17) as well as the opportunity of organizing, institutionalizing, and focusing the company's growth through a successful partnership.

The Business Impact

The capital injected by Newgrowth in 2001 and their active involvement, quickly allowed Punto Clave to significantly expand its infrastructure and capabilities, accessing new clients and consolidating the existing ones.

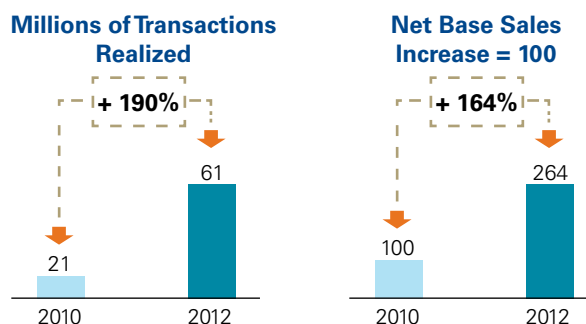
The value of launching an important business institutionalization and formalization process was evident from the due diligence stage. Newgrowth Fund and the founding partners worked jointly in an aggressive planning process over the first 100 days.

It started with the appointment of a Board of Directors and a CFO that would also be the most important contact

between the fund and the company. The 100-Day Plan enabled to evolve from an unorganized list of more than 100 initiatives to a simple but sound and agreed upon strategic plan that gave priority to four growth segments:

1. Government social programs
2. Financial Sector
3. Gas Station Sector
4. Retail Sector

Punto Clave succeeded in addressing its efforts to those sectors more likely to grow. In this way, it significantly increased its income and secured a high level of service and satisfaction for its clients, as already reflected in the long-term relationships they were securing. Additionally, formal performance reporting and measurement processes, and best practices were established in the company's operations.



●	Company: Punto Clave
●	Sector: electronic payments
●	Funds: New Growth Fund
●	Strategy: growth equity injection, creation of a sound strategic plan and institutionalization
●	Impact: significant growth in the amount of attended transactions and income

New Growth Fund's investment enabled Punto Clave to speed up the growth, focus the strategy, and achieve ambitious operative and financial goals.



Support to develop a key sector in Mexico (electronic payments)

The positive impact of the partnership between Newgrowth Fund and Punto Clave is not limited to the business and its growth. It also allows the growth of a key sector for the country's development. In Mexico, 80% of personal consumption is still paid in cash; worldwide, it is 46%.

Electronic payment systems enable an increased efficiency and productivity because they do not require a physical movement of the person who makes the payment, or of the cash, and reduces the associated costs to such payments. It is estimated that using cash generates a significant cost for the country, than can be up to 0.8% of GDP.

Accessibility to social support programs

Electronic payments allow governments to significantly improve accessibility. Beneficiaries of government

programs are able to get cash at their locations with an electronic card without having to go to the institution's offices. According to the World Bank⁽¹⁾, governments using these methods can reduce up to 75% of the administrative costs of benefit delivery.

Delivering social contributions with cards linked to biometric recognition devices (fingerprints) guarantees that the beneficiary is the one receiving the support, enables to reduce the diversion of resources, and ensures devices which validate the beneficiaries' "life proof".

Expanding the banking coverage

The banking coverage in Mexico, measured as the number of branches and automatic teller machines, is very low as compared to other countries. For every 100,000 habitants, Mexico only has 62, compared to Brazil with nearly 140. Punto Clave plays a critical role in the development of bank and exchange correspondent networks that substantially extend this banking coverage in the country, enabling consumption sectors such as gas stations, convenience stores, or store chains as correspondents.

¹¹ World Bank: <http://www.worldbank.org/en/news/2012/08/02/governments-can-save-up-seventy-five-percent-with-electronic-payment-programs>.

The partnership between Newgrowth Fund and Punto Clave has succeeded in substantially increasing the company's income and impact, ensuring the clients' satisfaction and supporting the industry development in Mexico.

Success Stories

redIT, successful Private Equity throughout the whole life cycle

Background

redIT was born in 1998, when its founders and a group of investors made a first round to raise Seed Capital. Originally, redIT only operated as a last mile network service provider, and consolidated as the second most important vendor. In 2004, it decided to enter the datacenter business where it is currently the second most important competitor.

The Private Equity Investment

In 2007, redIT had a specific investment need to take advantage of a market opportunity, and Latin Idea Ventures decided to provide the necessary equity.

Latin Idea and redIT already had a history since the fund's executives had participated in first equity raise of redIT, and were well acquainted with the business. They knew that in addition to the appropriate experience and capability, redIT's founders could continue generating growth to consolidate the company as one of the main players in the Information Technology market.

redIT is the perfect example in which Private Equity, in all its forms, from Seed Capital to Expansion Capital has accompanied the company throughout its life cycle.

Latin Idea or its partners individually have played a critical role in attracting several Private Equity funds that have invested in redIT. They have additionally facilitated, through their contacts, ensuring several credit lines under favorable conditions.

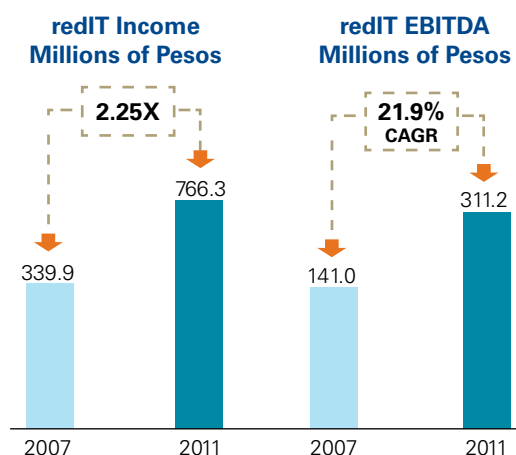
The Business Impact

Understanding and trust between redIT and Latin Idea was total, since they had been working together since its foundation, and both agreed that the strategy to be followed was to maintain the last mile business, since it provided stable cash flows. Likewise, it allowed investing in the growth of the data storage business where there was huge potential.

Since the partners of the fund had actively participated as advisors or members of the board of directors from the foundation of redIT, minimum changes were applied at the time of the investment in 2007.

redIT was an institutional company with an executive board, a professional team, and a clear growth strategy. In addition to funding organic growth, and allowing the exit of one of the

former investors, the equity provided by Latin Idea, Aureos Latin America Fund and Paul Capital was used to fund the acquisition of Diveo's datacenter business in 2009. Diveo was at the time, one of the most important competitors in this segment. This acquisition, along with another two, made subsequently, consolidated redIT as the number two player in the datacenter segment.



Company: redIT

Sector: Information Technology

Funds: Latin Idea Ventures/The Abraaj Group

Strategy: clear growth plan and Private Equity throughout all stages of the company's life cycle

Impact: income grew at a 22.5% CAGR, and EBITDA remained above 40% as a percentage of sales

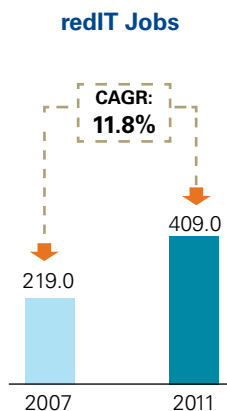
redIT is the perfect example of a successful partnership between Private Equity and a company, in all its growth stages.

Successful Private Equity throughout the whole life cycle

Over its almost 15 years of experience, redIT has received practically all the existing types of Private Equity funds, and has been a clear example on how a well-managed company with a clear strategy, can capitalize the financial and human resources contributed by the funds to consolidate as one of the market leaders. From its origin, redIT included angel investor funds (Seed Capital), then Venture Capital, Growth Capital, and Mezzanine Debt, and even to the date, it keeps Private Equity within its capital structure.

Creation of well-paid jobs

redIT is a clear example on how Private Equity supports the creation of well-paid jobs. Over the investment period, it aggregated more than 150 jobs, most of them engineers and technicians specialized in Information Technology.



Over the Latin Idea investment period, redIT created more than 150 well-paid jobs for specialists.



Success Stories

RuhrPumpen, optimizing manufacture and international growth of a family company

Background

Corporacion EG is a Mexican family-owned company, proprietary of the global brand RuhrPumpen; founded more than 30 years ago in Monterrey, and engaged in the production of pumps for oil and other fluids' transportation. It also provides maintenance and engineering services.

RuhrPumpen has consolidated as a global company with production plants in seven countries, operating in five continents and competing successfully with well-known multinational brands, such as Flowserve, KSB, and Sulzer, among others.

Corporacion EG entered into the pumping market with the initial acquisition of Crane Deming de Mexico in 1986, and throughout CEG's life, several acquisitions have been made, such as RuhrPumpen from Germany. Subsequently, it decided to put all the different pump companies together as The RuhrPumpen Group.

The Private Equity Investment

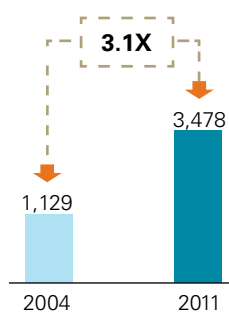
In 2004, WAMEX, one of Mexico's most active manufacturing investment funds, met RuhrPumpen's shareholders who were seeking equity to continue with its aggressive expansion plans abroad. WAMEX saw in RuhrPumpen the opportunity of entering into a partnership with a family with proved experience in the international consolidation of its industry, which according to the fund's perspectives, still offered wide growth opportunities.

The Business Impact

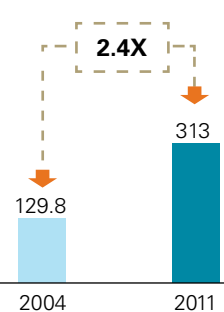
In terms of management, WAMEX noticed that RuhrPumpen operated efficiently achieving healthy growth rates, through an aggressive profit reinvestment policy. However, WAMEX also identified the opportunity to leverage its own experience in manufacturing, specifically in the automotive sector to establish "lean manufacturing" processes to make the operation more efficient.

WAMEX contributed its knowledge of acquisition processes and Corporate Governance practices in a family-owned environments. This helped RuhrPumpen to consolidate in the global market, by growing its plants number. Currently, it has plants in Mexico, The USA, Colombia, Brazil, Argentina, Germany, Egypt and India, and is in the process of setting up a plant in China.

RuhrPumpen Income
Millions of Pesos



RuhrPumpen EBITDA
Millions of Pesos



Company: Corporación EG (RuhrPumpen)

Sector: manufacturing of process pumps for the Oil industry

Funds: WAMEX MIF I

Strategy: implementing automotive industry "lean manufacturing" processes and encouraging growth via acquisitions

Impact: income increased 3.1 times and EBITDA multiplied by 2.4 times

RuhrPumpen Manufacturing Plants





Implementing lean manufacturing processes

“Lean manufacturing,” as it is generally known, is a manufacturing philosophy created by Toyota to make the production of car spare parts and automobiles, more efficient. Lean manufacturing’s philosophy is based on optimizing the production flow and reducing wastes while increasing quality and reducing both manufacturing time and cost. The system is anchored on two basic foundations: “just-in-time” production, that reduces the need of inventories, and in smart automation that seeks efficiencies in the production flow, all based on the most strict quality control systems.

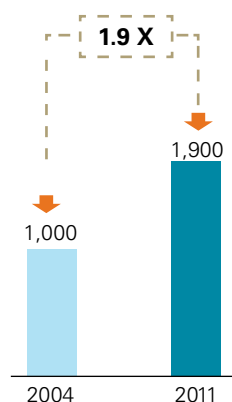
Although the philosophy was born in the automotive industry, it is actually applicable to any manufacturing process. WAMEX’s former experience in the

Automotive Industry enabled it to drive and support the “lean manufacturing” philosophy in Corporacion EG., this, positively impacted the efficiency of the company’s manufacturing processes and helped to position it as a key global competitor, increasing in turn the value of the equity.

Strengthening the acquisition process

From the beginning, the acquisitions were critical for RuhRPumpen. The partnership with WAMEX enabled it to strengthen and speed up its consolidation process as a key competitor in an industry requiring quick movements. Nowadays, RuhRPumpen is a Mexican company, fully family-owned, with plans to duplicate its size in the following four years.

RuhRPumpen’s Jobs



The growth that enabled the partnership between RuhRPumpen and WAMEX, in addition to placing it as an important global player and allowing it to achieve further production efficiency, allowed it to multiply its sales, profitability, the number of employees and the family’s equity.

Success Stories

Volaris, Private Equity to create a successful business model

Background

Volaris took off in 2003 when Discovery Americas and Columbia Equity Partners investment funds (a group of professionals in the industry) joined efforts with TACA Airlines in order to create a new low-cost airline that would successfully compete in the Mexican market.

The Private Equity Investment

Volaris represents a very particular success story where a Private Equity fund was created specifically to fund the creation of a company. Discovery Americas was specifically raised to create one of today's most important low-cost airlines in Mexico.

The fund, along with the investor group, identified a clear opportunity in the market; in Mexico, 56 million air travel trips were made on an annual basis compared to more than 2 billion land trips. From these, a significant portion represented first-class trips of over 300 kilometers, and another considerable portion, land trips more than 30 hours long; both were ideal to be replaced with air travel. The idea was to create an airline with a price structure to attract such land passengers.

Creating the business model required a very deep analysis since there were various models successfully operating in other countries and several key variables to be defined, such as the type of airplanes, the airline image and culture, the routes and airports where it would operate, among others. For such purpose, a detailed survey program was applied to potential travelers who evaluated whether they would use airline services instead of the traditionally offered ones.

As an example, it was asked whether passengers would be willing to use a land service to go to an alternative airport in exchange for a cheaper ticket, or use an internet platform to purchase a ticket without interaction with a representative. Based on the results, discussions with industry experts, and the evaluation of other similar airline models, the innovative service currently known, was developed: purchases via internet, alternative airports with land transport services included, significantly lower prices than traditional airlines and a high quality service offered in a much more relaxed and informal manner.

A critical part for the project's consolidation was negotiating and meeting the authority's requirements to issue a new airline concession because none had been granted for years.

Once Toluca Airport was selected as operative center, the challenge was to negotiate with state and municipal governments an extension of the existing infrastructure to support the projected passenger flows. It was also decided that Volaris would not compete with the traditional airline routes but would consolidate as a leader in less competitive routes, such as Mexico-Tijuana.

The result was an unprecedented success in the industry, which changed the culture of various travelers in Mexico who use to travel by land. In less than 9 years of operation, Volaris has more than 20% of the airline market and transports more than 10 million passengers per year who pay an average of US\$100 per ticket. It also has been able to attract a great amount of users who fly with Volaris for the first time.

● **Company:** Volaris

● **Sector:** Airline

● **Funds:** Discovery Americas

● **Strategy:** taking advantage of a great market opportunity to create a low-cost airline

● **Impact:** Volaris transported more than 5 million passengers in 2012

Volaris changed the travel culture in Mexico; in only 9 years, it went from 0 to more than 5 million passengers, and a large proportion of these passengers flew with Volaris for the first time.

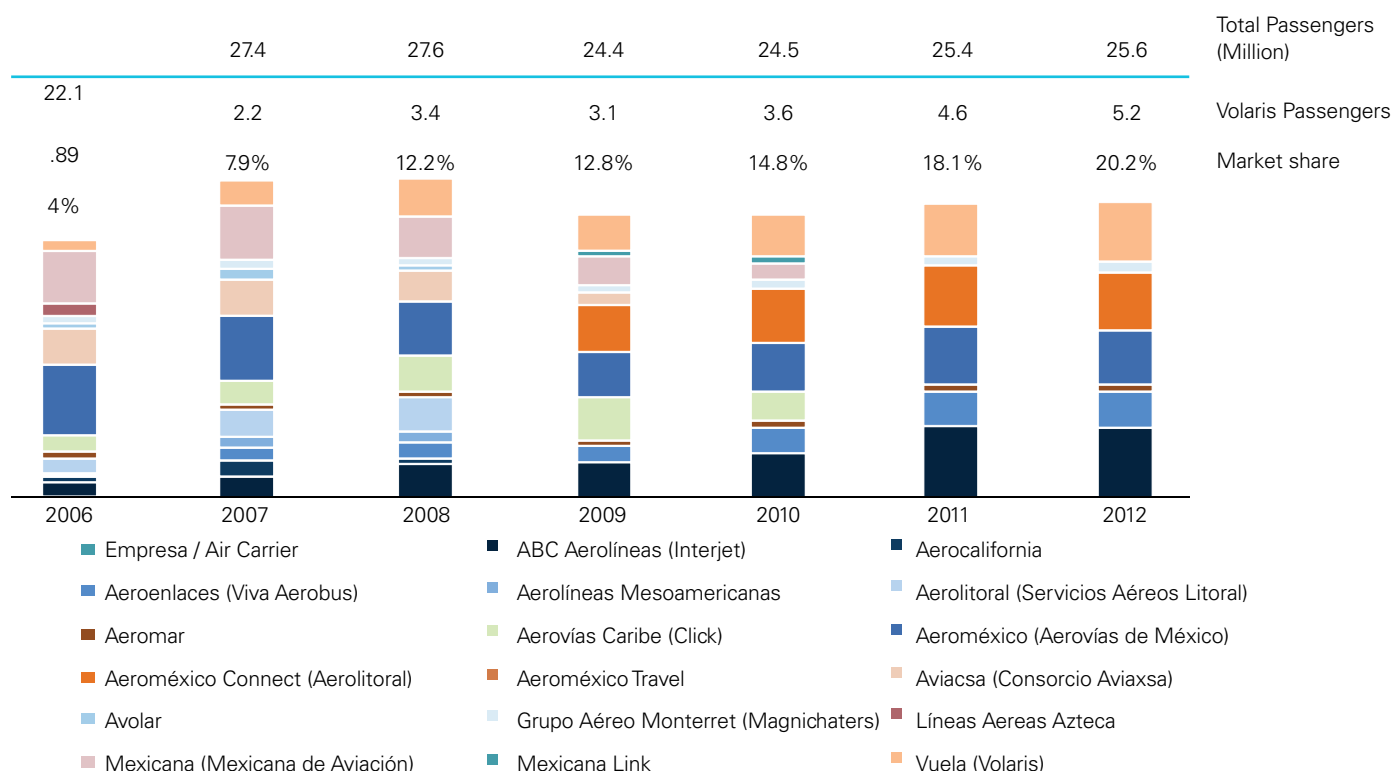
Changing an industry structure: more quality options for the consumers

Volaris is one of the companies that, along with others, changed the Mexican airline industry structure.

- In 2006, 14 airlines operated in Mexico. In 2012, there were only 6 in operation (considering Aeromexico Connect as part of Aeromexico)
- In 2006, only 3 airlines had a 10% market share; the other 11 did not have more than 7%
- In 2012, 5 out of the 6 airlines in operation had each more than 10% market share

While in 2006, more companies were in operation, they were relatively small and did not offer a world-class service to users. Currently, although fewer companies operate, there are more high quality options for users, a wider range of prices that make flights accessible to a larger percentage of the population, the operating fleet is newer and there are more frequent flights to more routes.

Passenger traffic in Mexican domestic routes by company



Source: KPMG with information provided by the Dirección General de Aeronáutica Civil [Directorate General of Civil Aeronautics]

Appendices



Detail of the comparative calculation of multiples, and CAGRs of BMV companies

				Sales		EBITDA / EBT		2006-2011 CAGR	
Company's Name	Stock Name	Weight in the IPC		2006	2011	2006	2011	Sales	EBITDA/ EBT
1	Arca Continental, S.A.B de C.V.	AC	0.6%	16,672	44,798	4,007	8,388	22%	16%
2	Alfa, S.A.B. de C.V.	ALFA	4.4%	76,616	182,763	8,546	21,166	19%	20%
3	Alsea, S.A.B. de C.V.	ALSEA	0.4%	5,808	10,669	971	1,260	13%	5%
4	America Móvil, S.A.B. de C.V.	AMXL	44.7%	234,222	665,302	85,991	60,082	23%	-7%
5	Grupo Aeroportuario del Sureste, S.A.B.	ASUR	0.2%	2,239	4,573	1,317	2,478	15%	13%
6	TV AZTECA CPO	AZTECA	1.3%	9,579	12,199	4,231	4,853	5%	3%
7	Grupo Bimbo, S.A.B. de C.V.	BIMBO	1.7%	63,633	133,712	7,766	15,377	16%	15%
8	CEMEX, S.A.B de C.V.	CEMEX	10.4%	197,093	188,938	44,691	29,471	-1%	-8%
9	Grupo Comercial Chedraui, S.A.B. de C.V.	CHDRAUI	0.2%	29,900	57,487	1,900	3,161	14%	11%
10	Compartamos	COMPARC	1.2%	2,975	14,479	1,359	6,093	37%	35%
11	Grupo Elektra, S.A.B. de C.V.	ELEKTRA	0.1%	33,075	52,019	6,009	8,285	9%	7%
12	Fomento Económico Mexicano, S.A.B. de C.V.	FEMSA	2.1%	126,427	203,044	25,182	33,446	10%	6%
13	Grupo Aeroportuario del Pacifico, S.A.B.	GAP	0.4%	2,935	4,939	1,952	2,588	11%	6%
14	Corporación Geo, S.A.B. de C.V.	GEO	0.6%	12,541	21,163	3,033	4,413	11%	8%
15	Grupo Financiero Inbursa, S.A.B. de C.V.	GFINBUR	2.5%	64,822	168,404	35,106	72,295	21%	16%
16	Grupo Financiero Banorte S.A.B. de C.V.	GFNORTE	2.6%	144,026	357,507	27,505	77,082	20%	23%
17	Grupo México, S.A.B. de C.V.	GMEXICO	4.8%	6,374	10,443	3,645	5,157	10%	7%
18	Grupo Modelo, S.A.B. de C.V.	GMODELO	0.7%	56,828	91,203	19,133	28,310	10%	8%
19	Gruma, S.A.B. de C.V.	GRUMA	0.2%	30,650	57,645	2,906	5,081	13%	12%
20	Desarrolladora HOMEX, S.A.B. de C.V.	HOMEX	0.3%	12,537	21,853	3,000	4,735	12%	10%
21	Empresas ICA, S.A.B. de C.V.	ICA	0.7%	21,396	42,769	2,467	6,588	15%	22%
22	Industrias CH, S.A.B. de C.V.	ICH	0.2%	27,122	32,407	3,969	4,206	4%	1%
23	Kimberly-Clark de México, S.A.B. de C.V.	KIMBER	1.8%	20,084	26,732	6,748	7,614	6%	2%
24	Coca-Cola Femsa, S.A.B. de C.V.	KOF	0.6%	57,738	203,044	12,219	33,446	29%	22%
25	Genomma Lab Internacional, S.A.B. de C.V.	LAB	1.0%	1,373	8,075	263	2,139	43%	52%
26	El Puerto de Liverpool, S.A.B. de C.V.	LIVEPOL	0.2%	36,022	50,881	4,027	5,108	7%	5%
27	Mexichem, S.A.B. de C.V.	MEXCHEM	1.3%	12,074	47,310	2,445	10,271	31%	33%
28	Industrias Peñoles, S.A.B. de C.V.	PEÑOLES	0.1%	37,204	96,864	7,568	31,711	21%	33%
29	Grupo Televisa S.A.	TELEVISA	3.2%	37,932	62,582	16,428	24,252	11%	8%
30	URBI Desarrollos Urbanos, S.A.B. de C.V.	URBI	0.7%	10,056	16,330	2,683	4,423	10%	11%
31	Walmart de México, S.A.B. de C.V.	WALMEX	8.7%	198,971	380,907	19,418	37,415	14%	14%
Total Aggregates		98.0%		1,588,924	3,271,041	366,485	560,894		
Aggregate CAGR								15.5%	8.9%
Aggregate Multiples								2.1	1.5

Source: KPMG analysis and calculation with information provided by Casa de Bolsa Banorte-IXE.

Note: The aggregate weight of the companies' in the IPC may not total 100%. The reason is that for some companies, there is not information available for the whole period because they were listed after 2006. Consequently, they were removed from the calculation. These companies are: Bolsa Mexicana de Valores (0.5% IPC), ALPEK A (0.5% IPC), Minera Frisco (0.5% IPC), and OHL México (0.5% IPC).

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