

# Overview of Mexico's Private Equity Industry



Mexican Association of PE & VC Funds  
**AMEXCAP**  
Asociación Mexicana de Capital Privado A.C.

August, 2012 - Final Version

For any questions regarding this document please contact AMEXCAP: [info@amexcap.com](mailto:info@amexcap.com)

# Agenda

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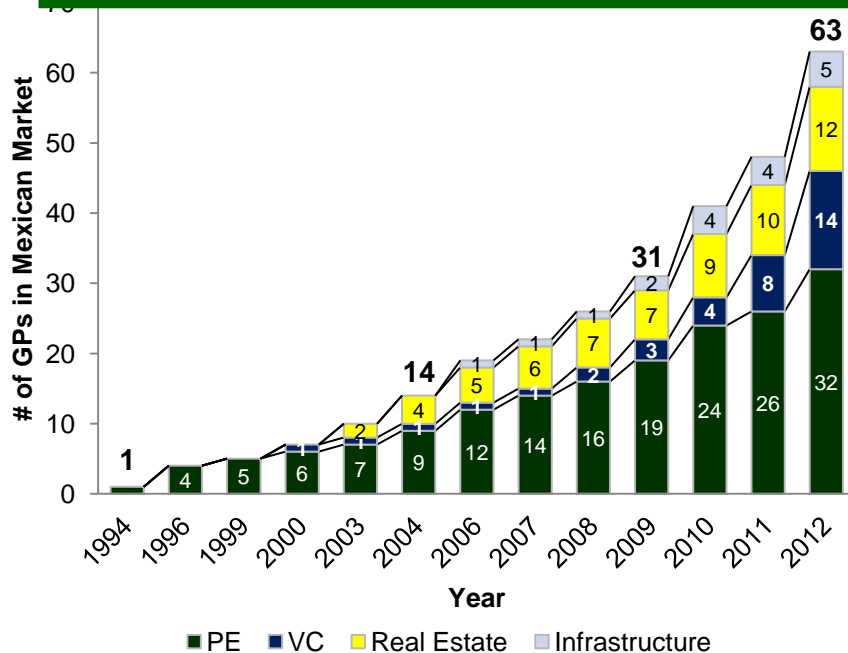
- **Private Equity Industry Structure**
  - **Fundraising in Mexico**
  - **Profile of Transactions in Mexico**
  - **Mexico vs. Top Emerging Market Economies**
  - **Mexico vs. Latin America**
  - **Opportunities in Mexico**
  - **Limited Partners participating in the Mexican Market**
  - **Highlights of the Mexican PE Market**
  - **Challenges faced by current fund managers**
  - **Opportunities moving forward**

# Private Equity Industry in Mexico

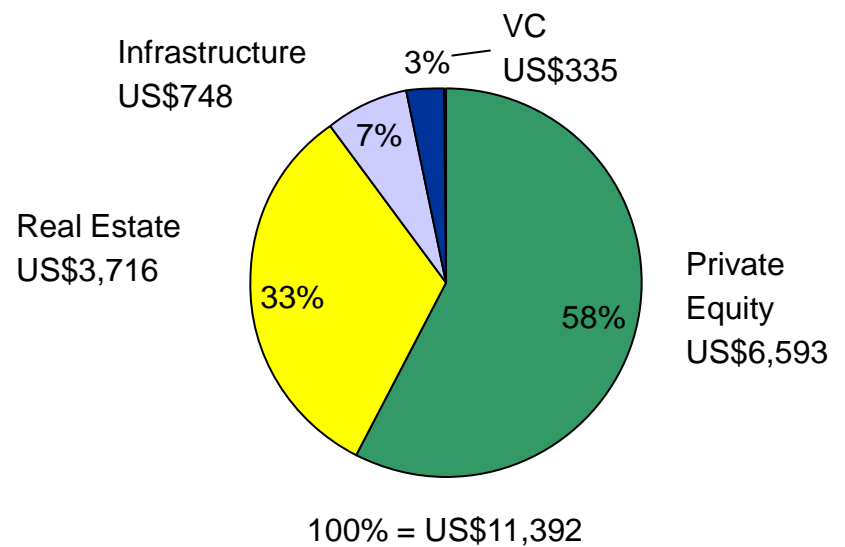
## Overview of Mexico's Private Equity Industry

- Private equity funds in Latin America with operations in Mexico have raised a total of US\$19,295 million from 1994 to 2012 of which US\$11,392 million have been allocated to invest in Mexican companies and the remaining capital to regional transactions.
- The number of general partners (GPs) has been steadily growing since the year 2000 with several spinning off from global funds while others stemming from local investment banking firms and still others from family offices and corporations.
- Regulation passed in 2009 allowed Mexican pension funds to invest up to 20% of their AUM in private equity through a public vehicle (CKD), key development for the creation of new funds and a catalyst for attracting more foreign flows to existing GPs.
- From 2004 to 2011, eight IPOs were backed by PE players.
- Recent private equity backed IPOs (2007-2011) include Sports World, Genomma Lab, and Financiera Independencia.

## Evolution of Active GPs in Mexico



## \*Concentration of capital by fund strategy (million)



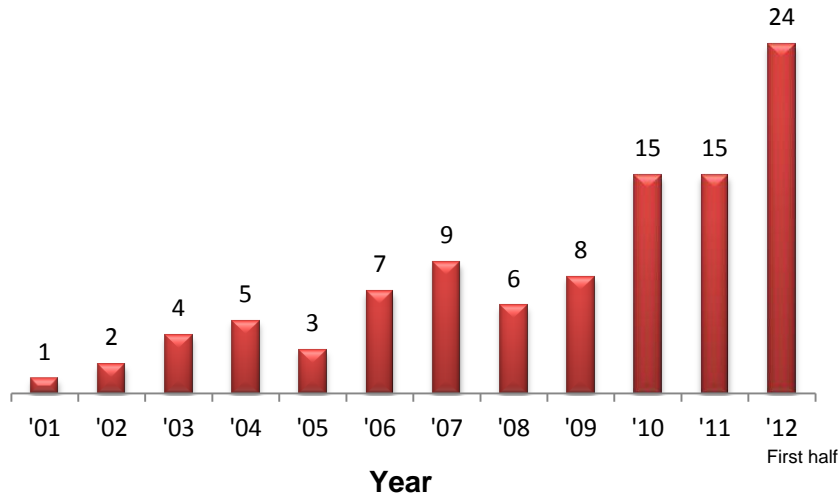
\*Historical committed funds allocated to Mexico (from 1994 – first half 2012)

Source: AMEXCAP, Based on GPs with at least one fund (except for year 2012 which includes one VC with an open fund & commitments, July 1, 2012)

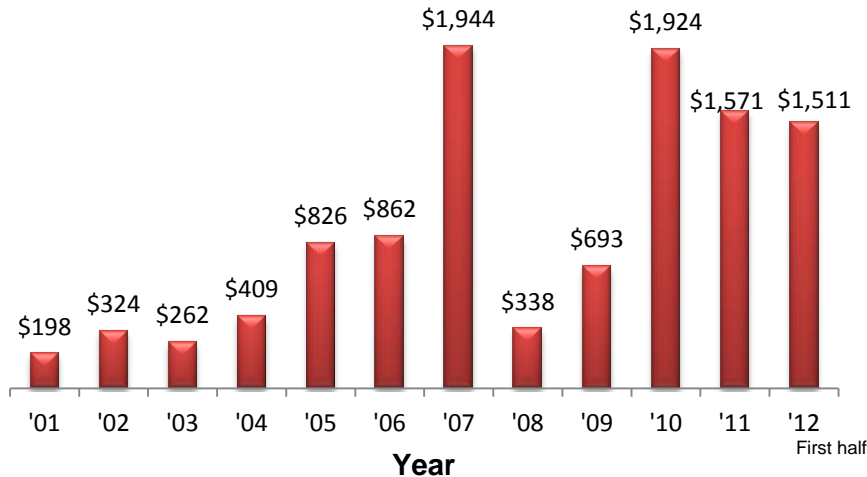
Note: PE category includes GPs with following strategies: LBO, growth, large and small and mid-sized firm focus.

# Fundraising by GPs in Mexico

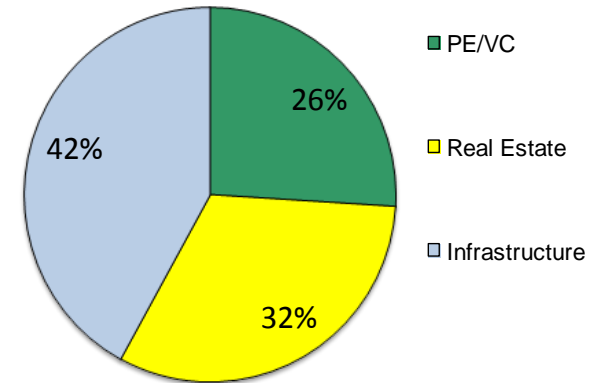
## \*Number of funds raised per year



## \*Commitments allocated to Mexico (US\$ million)



## Commitments of Mexican Pension Funds by Strategy

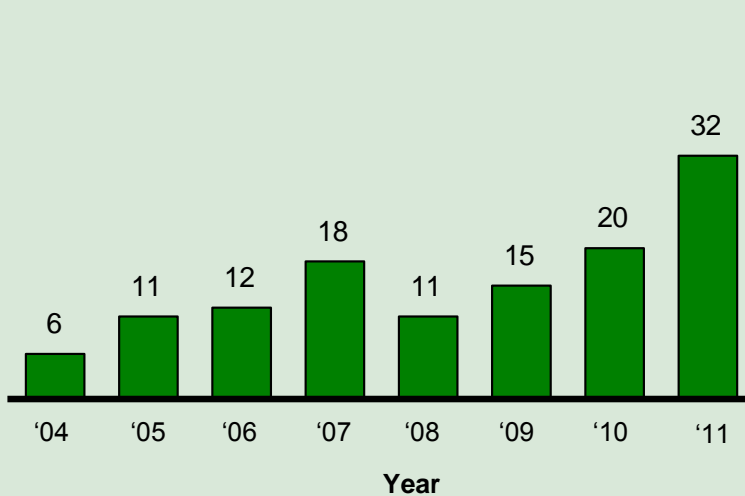


## Key Developments

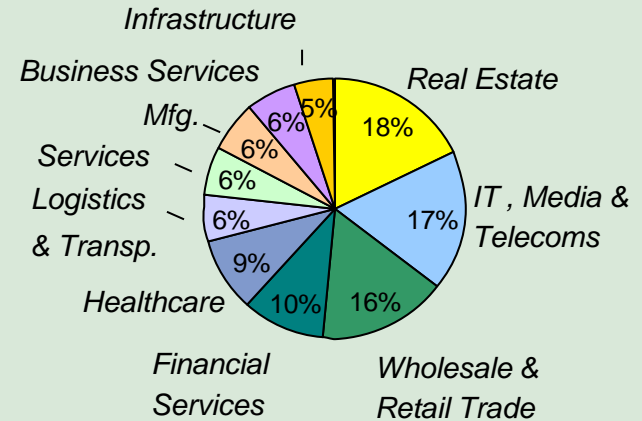
- Mexican pension plans have invested in twenty one funds since 2009 committing over US\$ 3 billion.
- Mexican Government key proponent of industry as a catalyst for economic advancement has been investing in funds since 1995:
- In 2006 launched Fund of Funds program with over US\$500 million commitments.
- In 2010 launched a US\$100 million venture fund of funds vehicle.

# Profile of transactions in the Mexican market

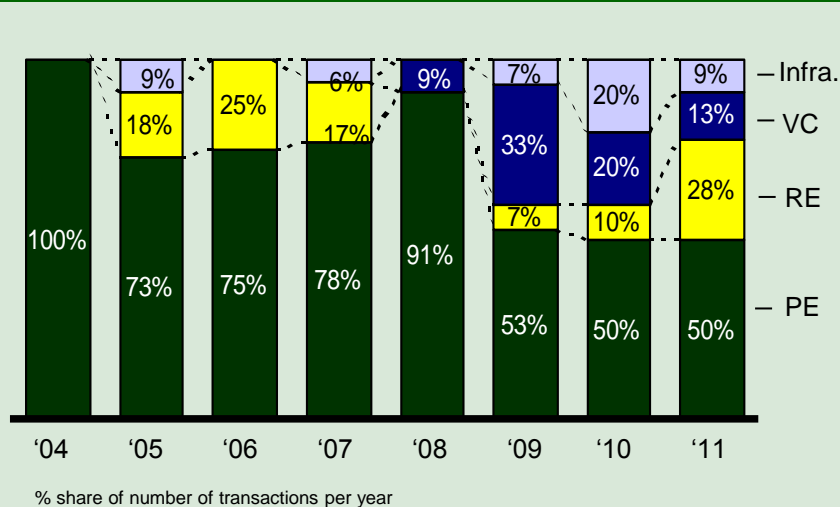
Investments 2004 - 2011 (# transactions)



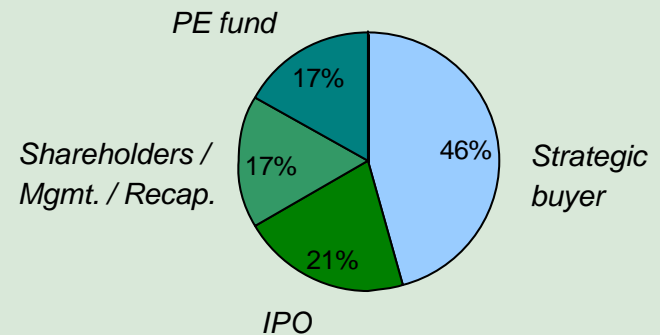
Investments by sector (# transactions)



Investments by fund strategy 2004 - 2011 (%)



Exits by strategy (# transactions)



100% = 48 exits from 2001 to 2012

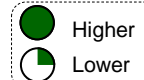
# Mexico vs. Top Emerging Market Economies

Driver	Mexico	China	India	Russia	Turkey
<b>Strength of Market: Size &amp; Population</b>	 <ul style="list-style-type: none"> <li>• Median Age: 27.4</li> <li>• Population: 115 million</li> <li>• *Literacy rate: 86.9%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 35.9</li> <li>• Population: 1.34 billion</li> <li>• *Literacy rate: 92.2%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 26.5</li> <li>• Population: 1.2 billion</li> <li>• *Literacy rate: 61.0%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 38.8</li> <li>• Population: 138 million</li> <li>• *Literacy rate: 99.6%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 28.8</li> <li>• Population: 80 million</li> <li>• *Literacy rate: 87.4%</li> </ul>
<b>Economic Strength: GDP &amp; Inflation</b>	 <ul style="list-style-type: none"> <li>• Unemployment: 5.2%</li> <li>• *GDP-capita: 10,046</li> <li>• GDP growth: 4.0%</li> <li>• Inflation (annual): 3.5%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 6.5%</li> <li>• *GDP-capita : 5,433</li> <li>• GDP growth: 9.2%</li> <li>• Inflation (annual): 5.5%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 9.8%</li> <li>• *GDP-capita : 1,392</li> <li>• GDP growth: 7.2%</li> <li>• Inflation (annual): 8.9%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 6.6%</li> <li>• *GDP-capita: 13,398</li> <li>• GDP growth: 4.3%</li> <li>• Inflation (annual): 8.4%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 9.8%</li> <li>• *GDP-capita : 9,757</li> <li>• GDP growth: 8.5%</li> <li>• Inflation (annual): 6.5%</li> </ul>
<b>Strength of Trade</b>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 336</li> <li>• Import (US\$b): 342</li> <li>• External Debt (US\$b): 204</li> <li>• Ext. Debt / Exports: 61%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$tr): 1.9</li> <li>• Import (US\$tr): 1.7</li> <li>• External Debt (US\$b): 697</li> <li>• Ext. Debt / Exports: 37%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 299</li> <li>• Import (US\$b): 461</li> <li>• External Debt (US\$b): 290</li> <li>• Ext. Debt / Exports: 97%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 521</li> <li>• Import (US\$b): 323</li> <li>• External Debt (US\$b): 519</li> <li>• Ext. Debt / Exports: 100%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 144</li> <li>• Import (US\$b): 233</li> <li>• External Debt (US\$b): 307</li> <li>• Ext. Debt / Exports: 214%</li> </ul>
<b>Fiscal Prudence</b>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 427</li> <li>• Revenues (US\$b): 263</li> <li>• Reserves (US\$b): 142</li> <li>• Debt / GDP: 37.0%</li> <li>• Reserves / Debt: 33%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 3,174</li> <li>• Rev. (US\$b): 1,649</li> <li>• Reserves (US\$b): 3,236</li> <li>• Debt / GDP: 43.5%</li> <li>• Reserves / Debt: 102%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 814</li> <li>• Revenues (US\$b): 196</li> <li>• Reserves (US\$b): 298</li> <li>• Debt / GDP: 48.5%</li> <li>• Reserves / Debt: 37%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 154</li> <li>• Rev. (US\$b): 383</li> <li>• Reserves (US\$b): 499</li> <li>• Debt / GDP: 8.3%</li> <li>• Reserves / Debt: 325%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 311</li> <li>• Rev. (US\$b): 177</li> <li>• Reserves (US\$b): 88</li> <li>• Debt / GDP: 39.9%</li> <li>• Reserves / Debt: 28%</li> </ul>
<b>Ease of Doing Business Ranking</b>	 <ul style="list-style-type: none"> <li>• Starting Business: 75</li> <li>• Enforcing Contracts: 81</li> <li>• Resolving insolvency: 24</li> <li>• Trading cross borders: 59</li> <li>• Protecting investors: 46</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Bus.: 151</li> <li>• Enforcing Cont.: 16</li> <li>• Resolving insolvency: 75</li> <li>• Trading cross borders: 60</li> <li>• Protecting investors: 97</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Bus.: 166</li> <li>• Enforcing Cont.: 182</li> <li>• Resolving insolvency: 128</li> <li>• Trading cross borders: 109</li> <li>• Protecting investors: 46</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Bus.: 111</li> <li>• Enforcing Cont.: 13</li> <li>• Resolving insolvency: 60</li> <li>• Trading cross borders: 160</li> <li>• Protecting investors: 111</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Business: 61</li> <li>• Enforcing Contracts: 51</li> <li>• Resolving insolvency: 120</li> <li>• Trading cross borders: 80</li> <li>• Protecting investors: 65</li> </ul>
<b>Technological Strength</b>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 310</li> <li>• High tech exports (% of manufactured exp.): 16.9</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 902</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 343</li> <li>• High tech exports (% of manufactured exp.): 27.5</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 741</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 75</li> <li>• High tech exports (% of manufactured exp.): 7.2</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 337</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 433</li> <li>• High tech exports (% of manufactured exp.): 8.8</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 1,721</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 398</li> <li>• High tech exports (% of manufactured exp.): 1.9</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 1,127</li> </ul>
<b>Private Equity Penetration</b>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 459</li> <li>• PE investments % of GDP: 0.04</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 10,529</li> <li>• PE investments % of GDP: 0.14</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 6,172</li> <li>• PE investments % of GDP: 0.37</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 1,579</li> <li>• PE investments % of GDP: 0.09</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 765</li> <li>• PE investments % of GDP: 0.10</li> </ul>

• GDP per capita in US\$ at official exchange rate. • Literacy rate: % of population age 15+

Source: The World Bank (WB) & IFC 2012 Doing Business in a More Transparent World, CIA World Factbook, EMPEA Investments Report, AMEXCAP Analysis

**Country Comparative Analysis Code**



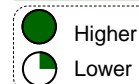
# Mexico is well positioned to close the PE penetration gap vs. Lat-Am peers: the country has a robust population profile and solid economic fundamentals.

Driver	Mexico	Brazil	Chile	Colombia	Peru
<b>Strength of Market: Size &amp; Population</b>	 <ul style="list-style-type: none"> <li>• Median Age: 27.4</li> <li>• Population: 115 million</li> <li>• *Literacy rate: 86.9%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 29.6</li> <li>• Population: 206 million</li> <li>• *Literacy rate: 88.6%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 32.8</li> <li>• Population: 17 million</li> <li>• *Literacy rate: 95.7%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 28.3</li> <li>• Population: 45 million</li> <li>• *Literacy rate: 90.4%</li> </ul>	 <ul style="list-style-type: none"> <li>• Median Age: 26.5</li> <li>• Population: 30 million</li> <li>• *Literacy rate: 92.9%</li> </ul>
<b>Economic Strength: GDP &amp; Inflation</b>	 <ul style="list-style-type: none"> <li>• Unemployment: 5.2%</li> <li>• *GDP-capita: 10,046</li> <li>• GDP growth: 4.0%</li> <li>• Inflation (annual): 3.5%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 6.0%</li> <li>• *GDP-capita : 12,119</li> <li>• GDP growth: 2.7%</li> <li>• Inflation (annual): 6.5%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 6.6%</li> <li>• *GDP-capita : 14,554</li> <li>• GDP growth: 5.9%</li> <li>• Inflation (annual): 3.3%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 10.8%</li> <li>• *GDP-capita: 7,259</li> <li>• GDP growth: 5.9%</li> <li>• Inflation (annual): 3.7%</li> </ul>	 <ul style="list-style-type: none"> <li>• Unemployment: 7.9%</li> <li>• *GDP-capita : 5,872</li> <li>• GDP growth: 6.9%</li> <li>• Inflation (annual): 3.4%</li> </ul>
<b>Strength of Trade</b>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 336</li> <li>• Import (US\$b): 342</li> <li>• External Debt (US\$b): 204</li> <li>• Ext. Debt / Exports: 61%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 251</li> <li>• Import (US\$b): 220</li> <li>• External Debt (US\$b): 410</li> <li>• Ext. Debt / Exports: 163%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 86</li> <li>• Import (US\$b): 72</li> <li>• External Debt (US\$b): 99</li> <li>• Ext. Debt / Exports: 115%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 57</li> <li>• Import (US\$b): 55</li> <li>• External Debt (US\$b): 70</li> <li>• Ext. Debt / Exports: 124%</li> </ul>	 <ul style="list-style-type: none"> <li>• Export (US\$b): 46</li> <li>• Import (US\$b): 37</li> <li>• External Debt (US\$b): 37</li> <li>• Ext. Debt / Exports: 80%</li> </ul>
<b>Fiscal Prudence</b>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 427</li> <li>• Revenues (US\$b): 263</li> <li>• Reserves (US\$b): 142</li> <li>• Debt / GDP: 37.0%</li> <li>• Reserves / Debt: 33%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 1,354</li> <li>• Revenues (US\$b): 977</li> <li>• Reserves (US\$b): 358</li> <li>• Debt / GDP: 54.4%</li> <li>• Reserves / Debt: 26%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 23</li> <li>• Revenues (US\$b): 56</li> <li>• Reserves (US\$b): 41</li> <li>• Debt / GDP: 9.4%</li> <li>• Reserves / Debt: 177%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 150</li> <li>• Revenues (US\$b): 90</li> <li>• Reserves (US\$b): 32</li> <li>• Debt / GDP: 45.6%</li> <li>• Reserves / Debt: 22%</li> </ul>	 <ul style="list-style-type: none"> <li>• Debt (US\$b): 38</li> <li>• Revenues (US\$b): 36</li> <li>• Reserves (US\$b): 49</li> <li>• Debt / GDP: 21.7%</li> <li>• Reserves / Debt: 130%</li> </ul>
<b>Ease of Doing Business Ranking</b>	 <ul style="list-style-type: none"> <li>• Starting Business 75</li> <li>• Enforcing Contracts: 81</li> <li>• Resolving insolvency: 24</li> <li>• Trading cross borders: 59</li> <li>• Protecting investors: 46</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Bus. 120</li> <li>• Enforcing Cont.: 118</li> <li>• Resolving insolvency: 136</li> <li>• Trading cross borders: 121</li> <li>• Protecting investors: 79</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Business 27</li> <li>• Enforcing Contracts: 67</li> <li>• Resolving insolvency: 110</li> <li>• Trading cross borders: 62</li> <li>• Protecting investors: 29</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Business 65</li> <li>• Enforcing Contracts: 149</li> <li>• Resolving insolvency: 12</li> <li>• Trading cross borders: 87</li> <li>• Protecting investors: 5</li> </ul>	 <ul style="list-style-type: none"> <li>• Starting Business 55</li> <li>• Enforcing Contracts: 111</li> <li>• Resolving insolvency: 100</li> <li>• Trading cross borders: 56</li> <li>• Protecting investors: 17</li> </ul>
<b>Technological Strength</b>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 310</li> <li>• High tech exports (% of manufactured exp.): 16.9</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 902</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 406</li> <li>• High tech exports (% of manufactured exp.): 11.2</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 999</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 450</li> <li>• High tech exports (% of manufactured exp.): 5.4</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 1,090</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 365</li> <li>• High tech exports (% of manufactured exp.): 5.0</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 1,097</li> </ul>	 <ul style="list-style-type: none"> <li>• Internet user (per 1,000 people): 343</li> <li>• High tech exports (% of manufactured exp.): 6.5</li> <li>• Fixed &amp; cell phone subs. (per 1,000): 826</li> </ul>
<b>Private Equity Penetration</b>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 459</li> <li>• PE investments % of GDP: 0.04</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 4,167</li> <li>• PE investments % of GDP: 0.17</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 42</li> <li>• PE investments % of GDP: 0.02</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 622</li> <li>• PE investments % of GDP: 0.19</li> </ul>	 <ul style="list-style-type: none"> <li>• Annual investments (US\$m): 375</li> <li>• PE investments % of GDP: 0.22</li> </ul>

• GDP per capita in US\$ at official exchange rate. • Literacy rate: % of population age 15+

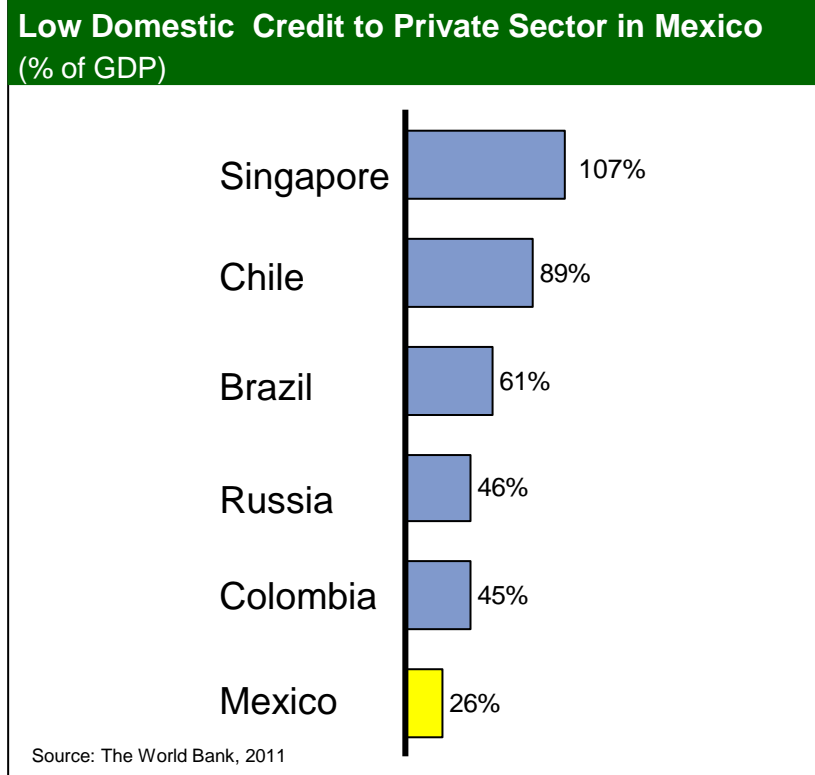
Source: The World Bank (WB) & IFC 2012 Doing Business in a More Transparent World, CIA World Factbook, LAVCA PE Investments Report, AMEXCAP Analysis

Country Comparative Analysis Code



## Despite Mexico's consolidated financial industry, it lags behind other emerging economies in financing by banks to the private sector.

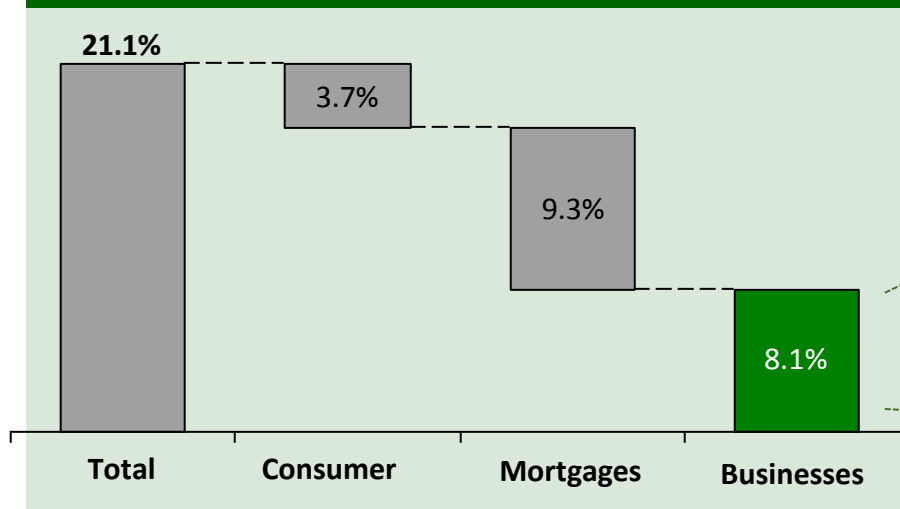
- ✓ Very stable macro environment.
- ✓ Mexican public pension funds allowed to allocate up to 20% of \*AUM (currently have committed 2.5% of their US\$120 billion assets).
- ✓ Opportunities abound in promising industries such as medical devices, pharmaceuticals, electronics & electricity equipment, aerospace, automobile, renewable energy, mining, processed foods, tourism, and business services.



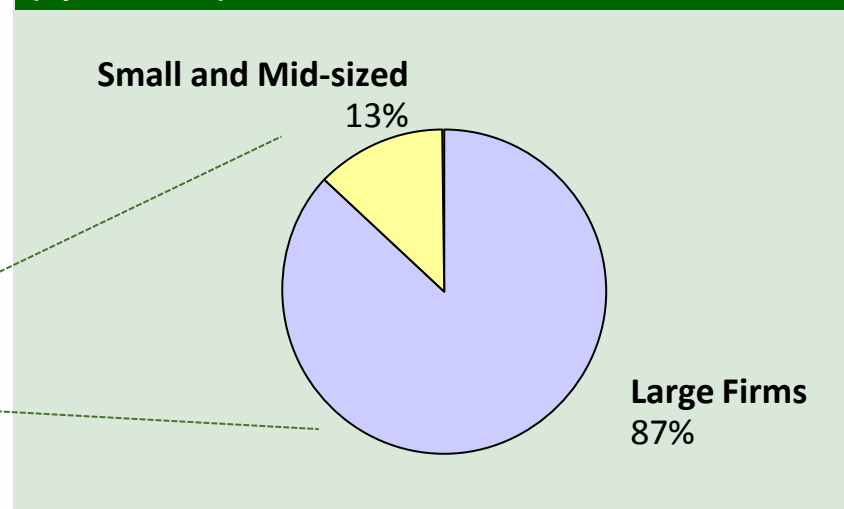


**...and the proportion of financing that reaches small and mid-sized firms is at a mere 1% of GDP, thus seeking internal and supplier financing alternatives.**

**Breakdown of financing to private sector in Mexico  
(% of GDP – year 2010)**



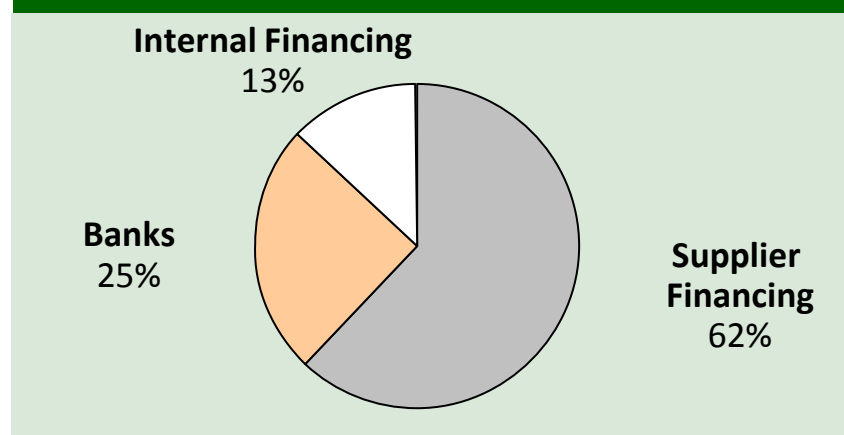
**Financing to Businesses in Mexico in 2010  
(By firm size)**



**Key points**

- Historically, financing by banks in Mexico has been targeted toward large businesses with very scarce alternatives to small and mid-sized firms (SMEs).
- SMEs represent about 40% of the country's GDP, however these firms only receive about 13% of financing provided to businesses (a mere 1% of Mexico's GDP)
- 75% of SMEs financing stems from internal and supplier sources leaving enormous opportunity to penetrate an underserved market.

**Sources of Financing by Small and Mid-sized firms  
in Mexico**



# Investors active in Mexico (non-exhaustive list)

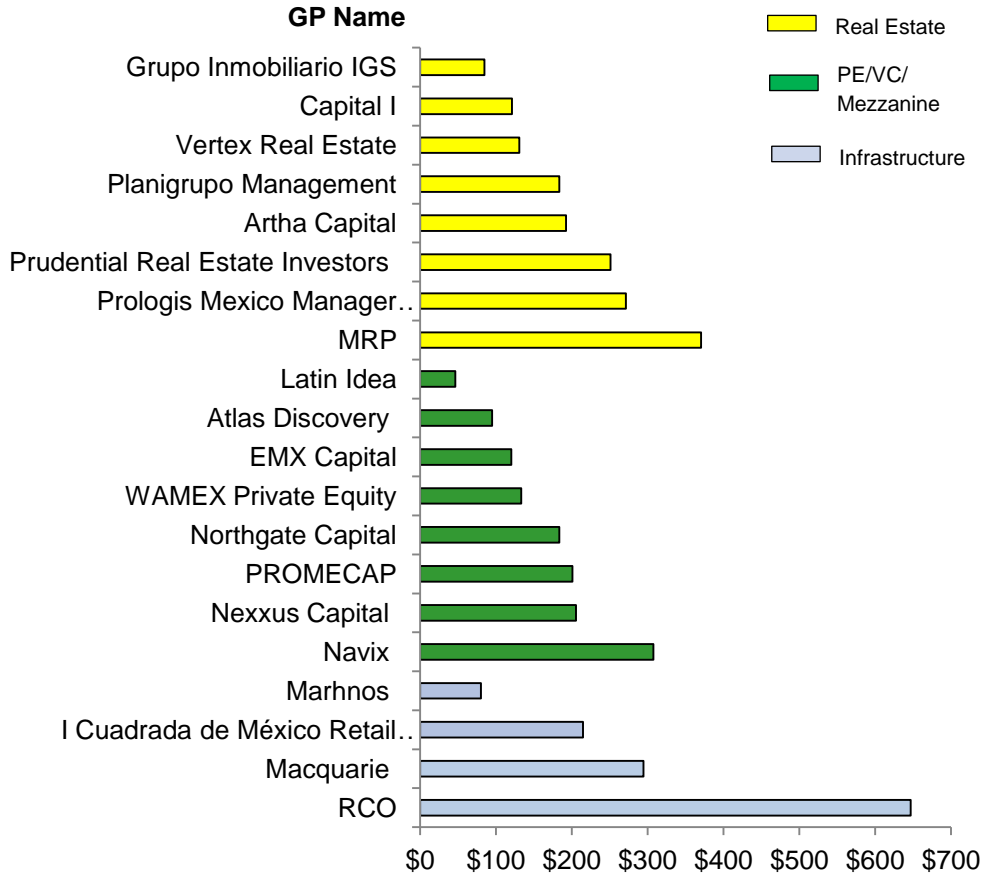


Bienvenido a Afore SURA



# Key industry accomplishments

## Local Pension Funds as Major LPs in Mexican Funds

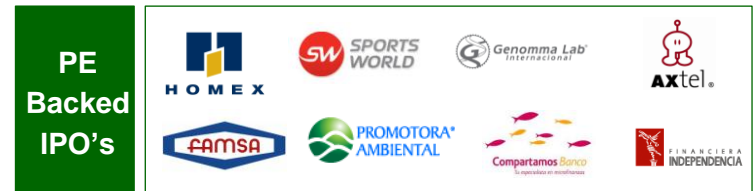
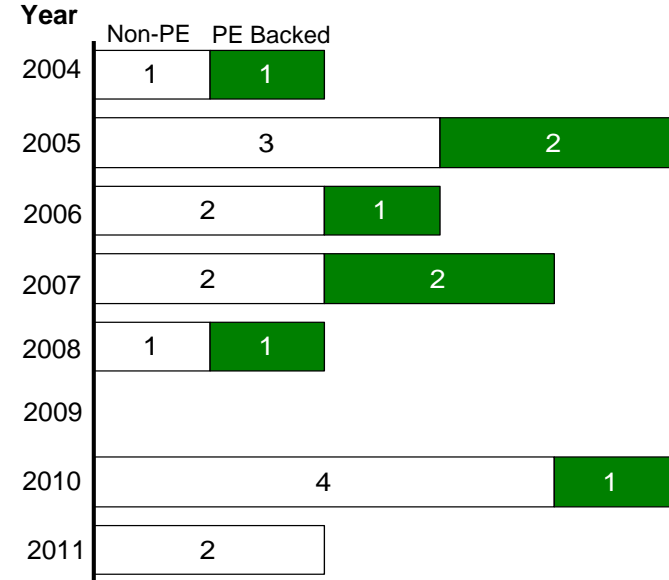


Amount Raised by GPs through Pension Funds (US\$ million) from October 2009 to July 2012

- Starting in 2009, local pension funds, which are the most important institutional investors in the industry worldwide, have committed over US\$3 billion to twenty GPs.
- Pension plans are also strategic buyers as they take positions in IPOs of firms backed by PE players.

Source: CONSAR, BMV

## Number of IPO's in Mexico (2004-2011)



- Eight IPOs in Mexico (from 2004 – 2011) were backed by PE player.
- Recent IPOs (2007-2011) include Sports World, Genomma Lab, and Financiera Independencia.

## **On the ground challenges faced by current GPs in Mexico**

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### **1) Strategic sectors in the market remain highly concentrated:**

Moving forward, regulators in Mexico are enforcing stricter anti-competitive and monopolistic structures in sectors such as telecoms and media, in addition to willingness to opening Mexico's oil industry to private investments. The energy sector remains entrenched by the government's historical involvement and might move slowly in the privatization direction.

### **2) Access to the bond market at favorable terms:**

The bond market has been a source of financing for large cap firms with strong corporate governance practices, but not as accessible for small to mid sized firms.

### **3) Fundraising by first-time funds has been a challenging task:**

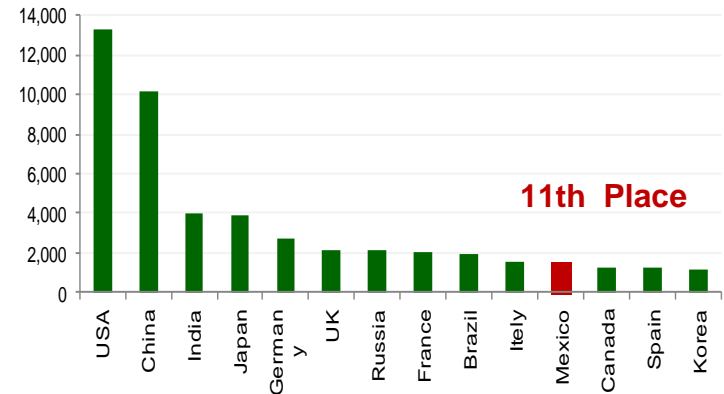
To counter this challenge, the government has implemented fund programs such as the recently launched "seed capital" fund and a "fund of funds" program fostering the formation of new private equity managers and strengthening existing ones.

# Mexico poised to continue expanding in a sustainable manner.

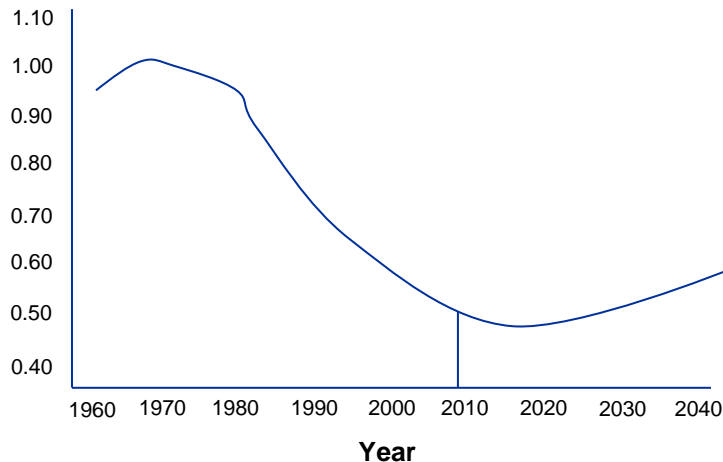
## Underlying Mexico's growth

- **2<sup>nd</sup> Country with most trade agreements:** Mexico has 12 free trade agreements yielding preferential relations with 49 countries. Manufacturing exports have grown 28 times in past 25 years.
- **High economic sophistication & robust workforce:** 115,000 engineers graduate annually; Mexico ranks 20<sup>th</sup> in the Atlas of Economic Sophistication by Harvard and MIT. Mexico has 115 million inhabitants with median age of 27 years. It is estimated that the workforce, currently at 47 million people, will grow to 60 million by 2030 with a reduced dependency rate.
- **Fiscal prudence & strengthening of monetary policies** have reduced public indebtedness and enabled economic stability.

## Largest Economies in 2011 (GDP – PPP) US\$ billion



## Dependency Ratio in Mexico from 1960 to 2040



## GDP 2050 Forecast\* US\$ billion



Source: ProMexico, \*Goldman Sachs, CIA Factbook/Bloomberg, Economist Intelligence Unit, World Bank, CONAPO, INEGI (Mexico)