Private Investment In Latin America

An emerging market's response to global headwinds

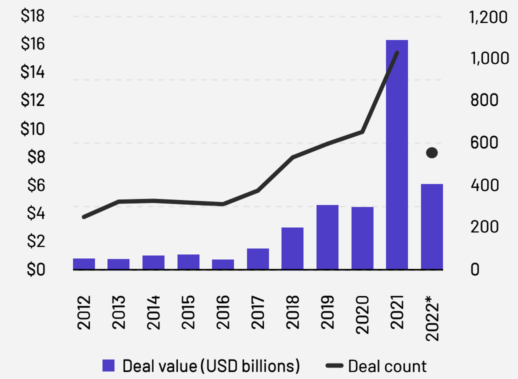
Data provided by PitchBook

Contents

Introduction

Latin America is home to several countries with developing economies and large populations, including a growing pool of tech talent bolstered by remote work opportunities that proliferated during the COVID-19 pandemic. Rising internet adoption and traditionally underserved consumer segments have also contributed to the expansion of private investment in the region. Political transitions are top of mind, with Chile and Colombia instituting new government leadership this year. Brazil holds its presidential election in October, and the result could have significant implications for private investment activity in Latin America's largest economy. Latin American countries were hit hard by COVID-19 and rampant inflation stemming from the conflict in Ukraine that began in February 2022. As the region faces these significant challenges, investor behavior will change as well. Read on for further discussion about Latin American private market activity over the past several years.

VC deal activity



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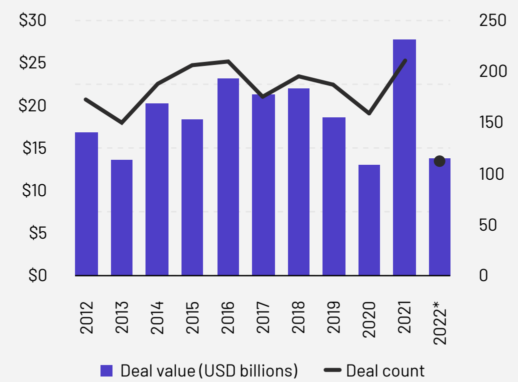
Geography: Latin America | *As of August 2, 2022

PE deal activity



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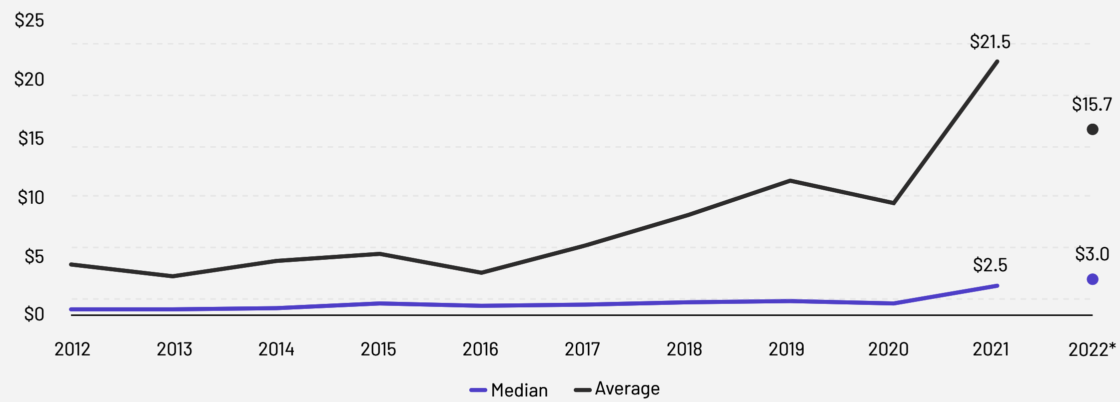
Market Trends

Venture capital

Venture capital (VC) activity skyrocketed globally in 2021. Latin America was no exception, with deal value more than tripling year-over-year (YoY). Broader venture dealmaking has since experienced a downturn, with macroeconomic pressures mounting. High inflation, recession fears and public market volatility have taken a toll on investor confidence; however, Latin American stock indexes have performed relatively well due in part to rising commodities prices boosting earnings for exporters.

Venture deal activity doubled between 2017 and 2018 and has maintained elevated levels of investment. 2021 was an outlier year, with deal activity growing 266.4 percent YoY and exceeding USD five billion for the first time after plateauing in 2020. The region’s tech ecosystem has burgeoned over the past several years, driving increased venture dealmaking across the board. Information Technology (IT) and Consumer Products and Services typically receive the most VC dollars. Several high-profile firms have turned toward Latin American targets in recent years, including SoftBank. Since 2019, it has launched two mega-funds dedicated to the region. Latin American companies are holding the attention of global investors, with 2022 having the highest cross-border deal value from non-Latin American investors year-to-date (YTD) than any year prior to 2021. This year's cross-border dealmaking trends show Latin American investors scaling back investments into non-Latin American companies while maintaining a focus on opportunities within the region, although the former investments still exceed the latter in terms of dollar value.

Median and average VC deal value (USD millions)



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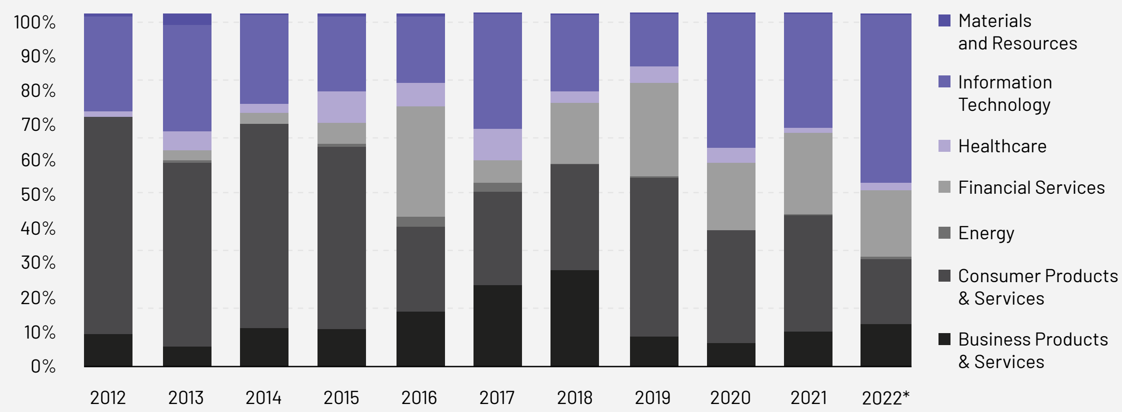
It is highly unlikely that venture dealmaking will match the unprecedented levels generated in 2021 as the macroeconomic environment sours. Total Latin American VC deal value declined 17.6 percent between Q1 and Q2 2022, and the average deal size dropped as check writers became more stringent in the face of market uncertainty. VC exit activity has declined significantly from a record-setting 2021, but deal value remains comparable to previous years. The near-term outlook for venture activity in the region is certainly less favorable than last year, but the long-term potential remains as dealmaking infrastructure matures.

Share of VC deal value by sector



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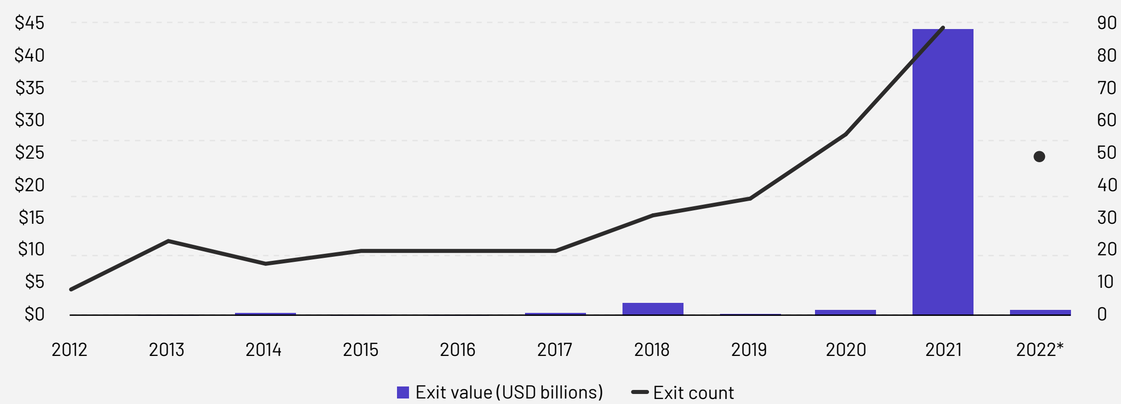
VC exit activity



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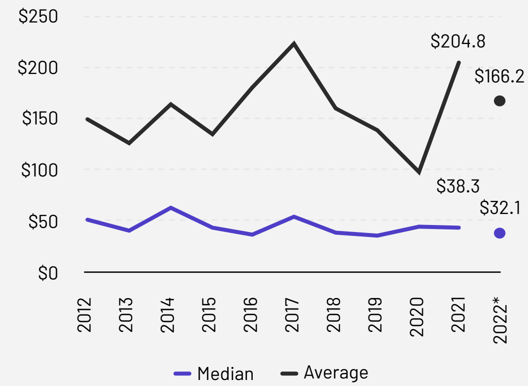
Private equity

Private equity (PE) activity in Latin America also reached record heights in 2021 after two consecutive years of decline. YTD deal value exceeded the annual total for 2020 across fewer deals, suggesting that elevated deal activity following COVID-19 continues. Firms are writing bigger checks as borrowing costs increase. Latin American central banks are raising interest rates in tandem with several other nations, with Brazil and Mexico particularly hawkish. Brazil's history of hyperinflation prompted an early start to rate hikes in March 2021. Since Brazil is the primary driver of the region’s PE activity, this could exacerbate downward pressure on the industry until rates are lowered. PE dealmakers weathered the storm of macroeconomic pressures that emerged in early 2022. In contrast with VC activity, PE deal value grew 16 percent between Q1 and Q2 2022 as firms took advantage of declining company valuations. Deal activity declined from 2021 but remains elevated in comparison with previous years. IT commanded the highest deal value YTD, followed by Energy, a sector that is likely to grow as commodities prices remain inflated. Macroeconomic volatility continues to stifle exit activity, with a decline in exit value and median exit size. No public listings were completed YTD, while 21 were completed in 2021 and 13 in 2020.

Cross-border PE dealmaking declined across the board in 2020, and activity since has been mixed. Latin American investment in non-Latin American companies remains inert, while investors outside the region more than doubled their investment in Latin American companies between 2020 and 2021. These investors have closed more than USD 10 billion with Latin American companies YTD, just under half of the amount in 2021, signaling a positive global view of the emerging market despite recent headwinds. Cross-border PE deal activity between investors and companies within the region declined between 2019 and 2021 at a time when overall PE activity grew.

Median and average PE deal value (USD millions)



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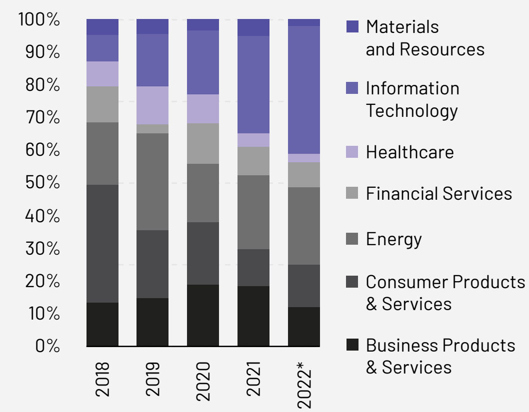
Share of PE deal value by sector



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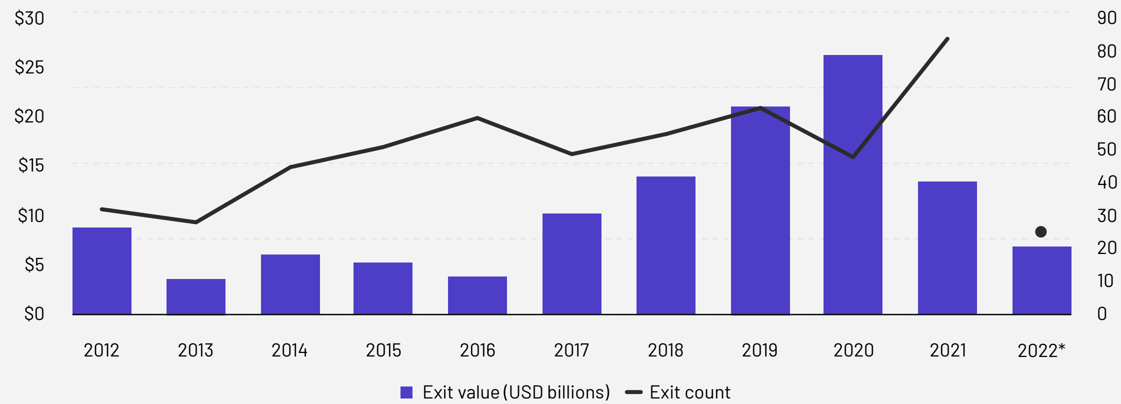
These deals experienced a resurgence in 2022 with YTD deal value representing 51.5 percent growth from 2021, just shy of its 2019 level. Investors in Brazil, Argentina and Colombia make the greatest number of cross-border investments in companies within the region.

Mergers and acquisitions

Mergers and acquisitions (M&A) deal activity halted during COVID-19 — dropping 62.5 percent between 2019 and 2020 — then bounced back modestly in 2021. Dealmakers are maintaining some momentum in 2022 with USD 23.7 billion generated YTD compared with USD 29.1 billion generated in 2021, but deal value remains low compared with pre-pandemic levels. Notably, however, Q1 2022 was the biggest quarter for deal value since 2019. Aggregate value in 2022 was generated across significantly fewer deals than last year, as the median deal size grew 27.6 percent to USD 31.4 million. Brazil consistently drove the

PE exit activity



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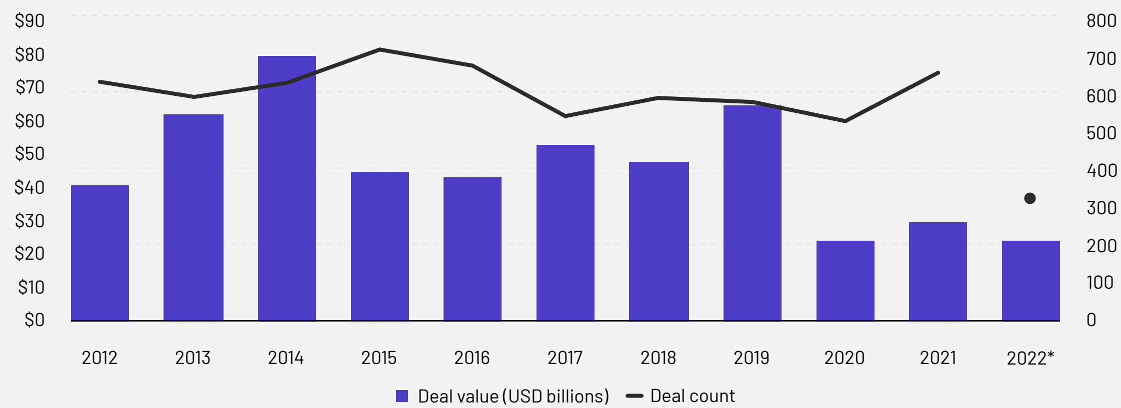
M&A deal activity



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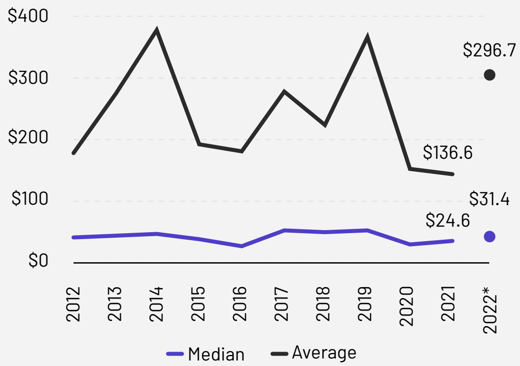
vast majority of M&A deal value and count, a trend that has persisted in 2022.

Cross-border M&A activity involving the region has historically been sporadic. Investors based in Mexico and Brazil — the region's two largest economies — complete the greatest number of M&A transactions with non-Latin American companies. These deals have risen in popularity so far this year, with YTD deal value up 46.1 percent compared with 2021. Deal activity between non-Latin American investors and Latin American companies remains compressed since COVID-19, when international dealmaking was hampered by travel restrictions and market uncertainty. Cross-border M&A deals between investors and companies within Latin America dropped by more than 60 percent YoY in 2020 but have regained some traction, with nearly as much deal value closed YTD as was generated in 2021, and across fewer deals. Investors in Mexico, Brazil and Chile write the most checks for other Latin American countries, while companies in Colombia and Brazil are the most common targets for deals with Latin American investor participation.

Median and average M&A deal value (USD millions)



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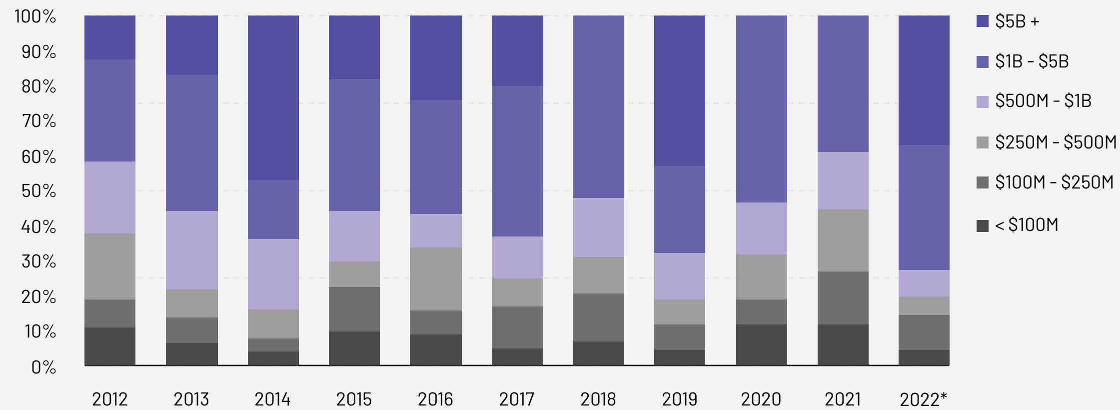
Share of M&A deal value by size bucket



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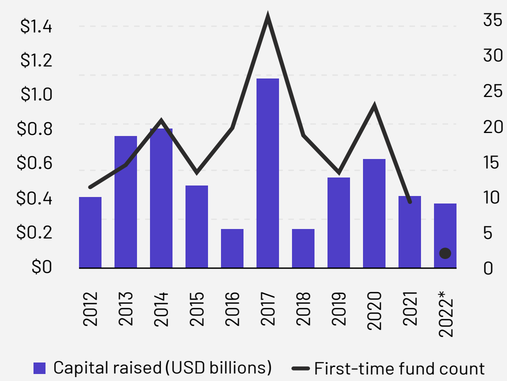
Looking Forward

Fundraising activity has been quiet so far in 2022, with just USD 600 million raised YTD compared with USD 3.6 billion in 2021. First-time funds have raised nearly as much capital YTD as was raised in all of 2021 across just two first-time funds compared with nine in 2021. Elevated first-time fundraising amounts show investors are more willing to commit capital to less-experienced managers, but the smaller population of these funds indicates the global market downturn has had an impact. Limited partners are feeling the effects of this downturn along with soaring inflation, which will result in a slower replenishment of capital for general partners to deploy.

Cross-border investment activity will be particularly sensitive to political landscape changes in the region and across the globe. The results of the Brazilian presidential election in October will be closely watched, as Brazil is the region's largest economy and most active investment hub. High inflation will likely continue to plague markets for the foreseeable future. While this may benefit commodities manufacturers, it will have material consequences for economic growth in the region. The region faces significant challenges in the near term; however, the development of its tech ecosystem is a positive signal for investment activity and investors will continue to seek opportunities in this emerging market.

First-time fundraising activity



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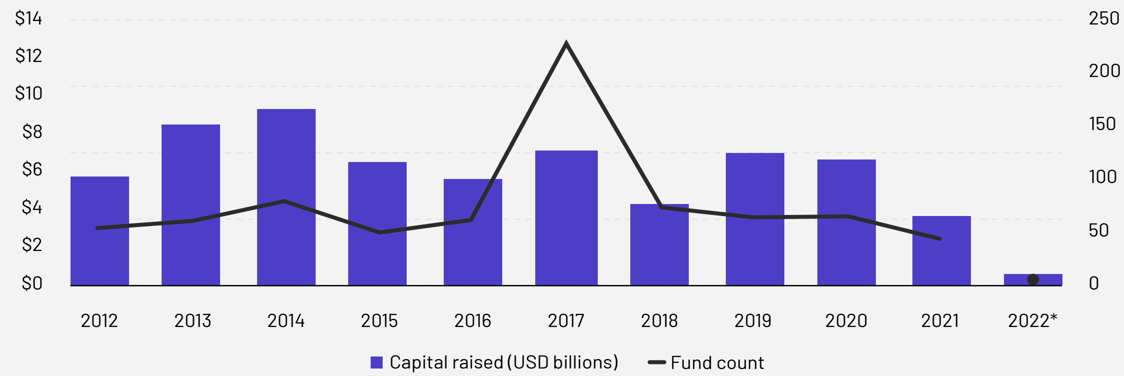
Fundraising activity



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