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LATIN AMERICA REPORT



A BRIGHT FUTURE

Foreword by Patrice Etlin, Managing Partner
and Juan Pablo Zucchini, Managing Partner

Latin America's economic growth trajectory is at an exciting point, presenting an array of opportunities to those who understand the region.

One of the headline trends is nearshoring, whereby US corporations turn to Latin America for their manufacturing and service imports instead of China.

There's a shift towards digitalization too, especially in finance. Payment companies, banking services and the technology supporting these industries are showing tremendous growth.

For Advent, these are encouraging times. We've been contributing to Latin America's prosperity since the 1990s, when we opened offices in Mexico City and São Paulo, Brazil.

In the almost 30 years since, we've developed insights into those sectors and subsectors in the region that can deliver breakout growth.

Along the way, in 2011, we opened a third office, this time in Bogotá, Colombia. We are proud to have one of the biggest private equity teams in the region.

Our success in Latin America stems from the network of relationships we've built up over the years, which allow us to access a healthy proprietary deal flow.

It helps that we have a strong record of working in partnership with portfolio companies to support them in achieving their full potential.

Our local sector knowledge, combined with the global expertise of the wider firm, is profound. Taken together, these factors give us a tremendous edge.

As we continue to realize the potential of these companies, we look forward to a bright future for our region. •



Patrice Etlin, *Managing Partner*



Juan Pablo Zucchini, *Managing Partner*

HOW *LatAm* IS FUELING BUSINESS GROWTH

Businesses in Latin America enjoy significant opportunities for expansion thanks to factors both demographic and economic.

According to the United Nations, the region's population is significantly younger than that of the United States.

Under-25s made up 39% of the Latin American and Caribbean population in 2022, according to the United Nations population portal. That's less than India's 44%, but well above the figures for the US (31%) and China (29%) in the same year.

What's more, GDP per capita is expected to increase in the next five years. In 2023, it exceeded \$10,000, according to the IMF World Economic Outlook (October 2023). By the end of 2028, it could be headed for \$13,000.

Inflation seems to be under control, given that the region's central banks started raising rates in 2021 – that is, before the Federal Reserve and European Central Bank.

Having reached a regionwide average of 7.8% in 2022, the IMF predicts a headline inflation rate of 3.6% in 2024.

Three further trends benefit businesses in the region, says Rafael Patury, Managing Director at its São Paulo office.

"First, we have an abundance of natural

resources, and we are a powerhouse in agribusiness and commodities exports."

Moreover, Latin America possesses a wealth of materials essential for the green transition. As of 2022, Argentina, Bolivia, and Chile controlled 60% of all identified lithium resources, according to the United Nations Development Programme.

The high rate of technology adoption is another bonus. Globally, the region tends to come out on top when it comes to Instagram, Facebook, TikTok and YouTube usage. This bodes well for digitalization plans.

Finally, an international reconfiguration of supply chains is increasing nearshoring opportunities in Latin America – for the most part in Mexico and Brazil.

As the US aims to depend less on Asian supply chains, largely as a result of tensions with China, this trend looks set to intensify.

Investors may also be attracted to the market dynamics in play across Latin America, such as productivity enhancement opportunities and fragmented industries with consolidation potential. •



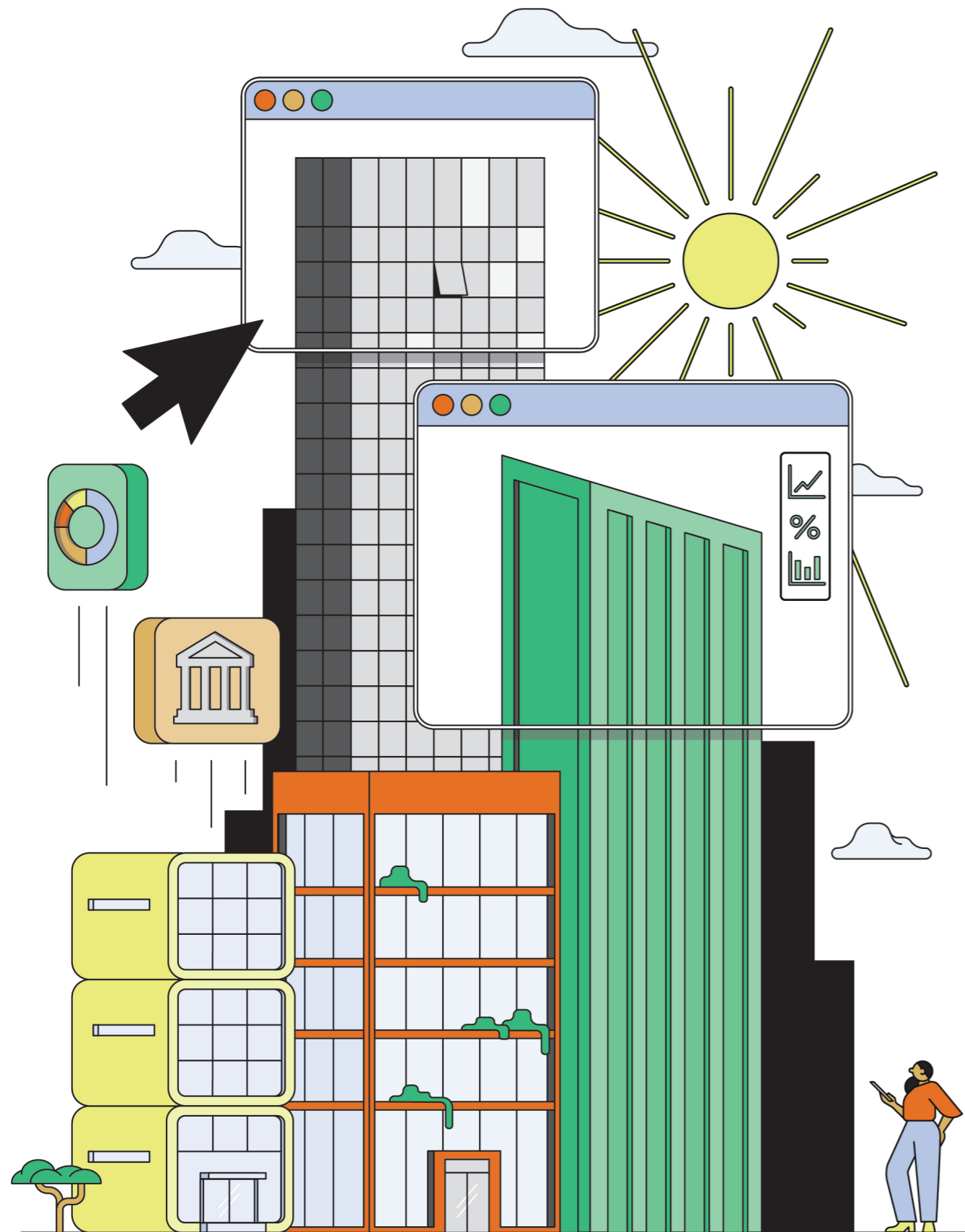
Rafael Patury, Managing Director in the São Paulo office

“ We have an abundance of natural resources, and we are *a powerhouse* in agribusiness and commodities exports.”



HOW NEARSHORING BENEFITS LATIN AMERICA

- Nearshoring means outsourcing business processes and manufacturing to nearby countries. Many US companies want to rely less on China. This trend benefits Latin America.
- In 2022, the Inter-American Development Bank estimated that nearshoring could add \$78 billion a year to Latin American and Caribbean exports of goods and services.
- Historically, the main players involved in Latin American nearshoring have been large industrial companies operating in sectors such as gas, petrochemicals and automotive.
- However, that profile is changing as mid-sized businesses involved in technology, pharmaceuticals and customer services take advantage of the trend.



THE CHANGING FACE OF FINANCIAL SERVICES

Latin America's big banks are powerful players that still control many financial services. As technology advances, however, a shake-up may be on the cards.

The Brazilian market offers an intriguing glimpse into what might lie ahead. Here, such services have been in the hands of four or five large banks for a very long time.

Marcelo Penna, a Director at Advent International's São Paulo office who specializes in financial services and technology, has been watching developments with interest.

"I believe a hot topic in my sector right now is what we refer to as capital markets back-office and fiduciary services, both in the context of corporate debt and investment funds," he says.

Services that aren't client-facing are classed as "back office." In effect, they're administration and support personnel such as accountants and IT staff.

"Now clients are demanding a different value proposition," says Penna, "and we believe there's a consolidation to be done in this space that we want to be part of."

Digitalizing services can achieve significant efficiency gains, while developments in Brazil's capital markets and fintechs open the door to even more changes.

In recent years Advent has capitalized on the decentralization trend by investing in Nubank, the largest digital bank in Latin America, and Easynvest, the first digital broker in Brazil.

Nubank, the São Paulo-based neobank (or fintech bank) founded in 2013, has more than 80 million customers and is active in Mexico and Colombia.

Companies such as these are built on superior technology, says Penna. What makes them thrive is the higher-quality service that results.

"There's still a lot of market share being dominated by the big banks, and this trend of decentralizing and hiring independent service providers is something that we expect to continue for a very long time," he says. ●



“The trend of decentralizing and hiring independent service providers is something that we expect to continue for a very long time.”

Marcelo Penna, a Director at Advent International's São Paulo office

A TASTY PROPOSITION

In Brazil, the iconic Copenhagen chocolate brand is a byword for quality. It's been around since 1928 and is a beloved mainstay of national life.

Grupo CRM, one of the country's largest franchising groups, has owned Copenhagen and several similar brands since 1996.

Back in 2020, when it announced a strategic partnership with Advent International, the family-owned business had more than 800 stores, selling directly to the public.

Renata Moraes Vichi, who had been Chief Executive for 22 years by this point, said that she was "thrilled" at the chance to expand the company's footprint. "Advent brings us not only its financial power, but also a deep knowledge of national and international retail," she said.

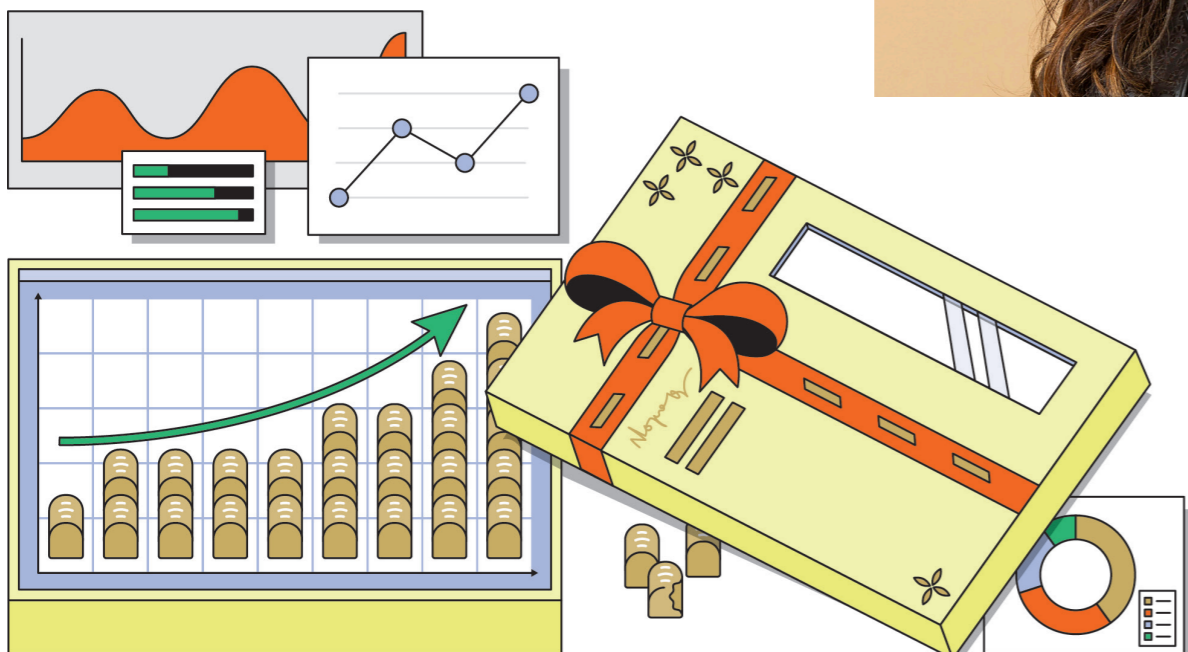
The cornerstone of Advent's plans was accelerating growth. It expanded the footprint of stores and improved same-store sales with new products and marketing initiatives. By launching a new app, and implementing WhatsApp sales and shipping from stores, it also transformed the digital side of the business, which now accounts for about 15% of Copenhagen sales.

Consequently, Grupo CRM has flourished. The number of shops now exceeds 1,000, with more than 2,000 employees, and Swiss food group Nestlé has acquired a majority stake.

Speaking in 2023, Vichi was delighted at how the strategy had worked. "Together with Advent, we have achieved in three years what had been expected in five, and now we are entering into this partnership with Nestlé certain that we have a long way to go to achieve our big dream." ●



Renata Moraes Vichi,
CEO, Grupo CRM



DIGITAL SERVICES: THE NEXT GENERATION

Keep an eye on the digital services sector. The indications are that in years to come, it could play an increasingly important role in Latin America's economy.

"It's a very large sector," says Brenno Raiko, a Managing Director in Advent International's São Paulo office. "We are talking about \$1.9 trillion in size worldwide. In Latin America alone, it's \$50 billion, with an expected growth of 18% in the coming years."

With that in mind, Advent has invested in four of the region's digital services firms: CI&T in Brazil, Sophos in Colombia, Neoris in Mexico and Encora – "a global company with a very important presence in Latin America."

"This sector is positively impacted by nearshoring and in each one of those companies, we have very capable teams to deliver high-quality digital services globally, at very good prices to their clients," Raiko explains.

Encora's CEO, Venu Raghavan, foresaw opportunities to grow its business in key markets when Advent acquired a majority stake in December 2021. Based in Scottsdale, Arizona, the firm has more than 40 offices and innovation labs across the US, Mexico, Costa Rica, Brazil, Colombia, Peru, Bolivia, India and Asia-Pacific.

Its specialty is software product development services for fast-growing and digitally native companies, utilising machine learning, AI, data science, cloud services and other next-generation disciplines.

About 60% of its revenue is delivered through Latin America, but in 2023, it acquired a Romanian company, Softelligence, to establish its first European delivery centres. ●



Brenno Raiko, Managing Director
in the São Paulo office

GHL'S ROADMAP FOR SUCCESS

For an invaluable lesson in global knowledge-sharing, it's worth studying Advent International's partnership with GHL Hoteles.

In 2022 Advent partnered with the hotel firm, which operated brands such as Sheraton, Hyatt and Radisson across 62 properties and 11 Latin American countries.

At the same time, Advent held a majority stake in Aimbridge Hospitality, a Dallas-based firm with approximately 800 upscale, independent and branded hotels.

"Both have very similar business models," says Manuel García Podestá, Managing Director in Advent's Bogotá office. "So, when we began looking at GHL in early 2022, we were able to extract key insights for investment underwriting from Aimbridge."

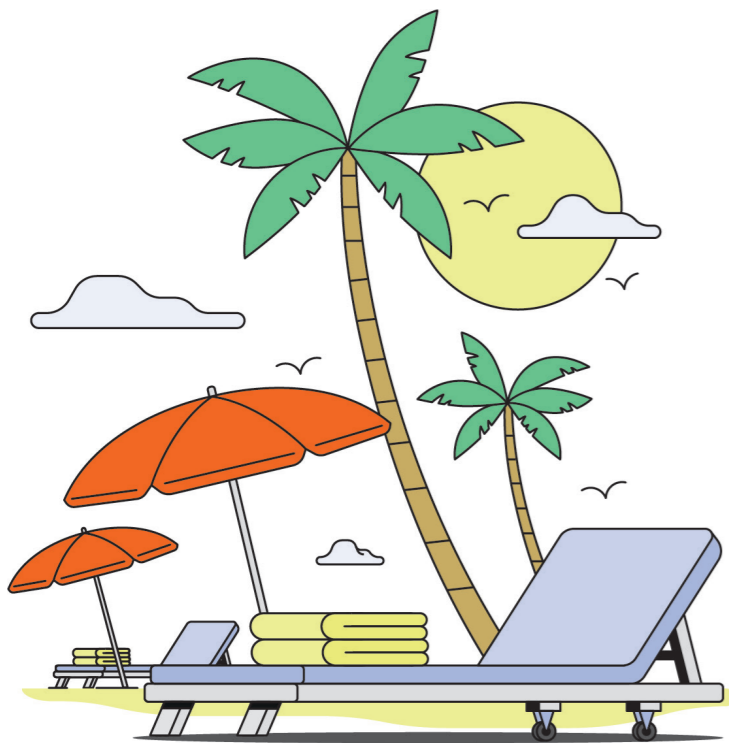
GHL, the largest third-party hotel operator in the Andean region and Central America, started trading in 1964 with five hotels in

southern Colombia. In 2022, it operated 62 hotels in Colombia, Ecuador, Peru, Central America, Chile and Argentina.

"We used the post-Covid recovery of the US hotel occupation to extrapolate market recovery potential for the Andean market, where Covid lockdowns had been extended and had only recently been raised," says Podestá.

"We developed a roadmap to reduce carbon emissions from GHL hotels, using the same experts that had developed the ESG strategy for Aimbridge. And finally, we applied a proven value-creation plan (VCP) playbook in our investment thesis."

Advent's innovations at Aimbridge were replicated at GHL. At one hotel, for instance, deploying a pricing pilot increased revenues by 22% and led to a roadmap for all of GHL's hotels in 2024. •



Manuel García Podestá, Managing Director in Advent's Bogotá office



ADVENT IN LATIN AMERICA

- **Offices in:** São Paulo [since 1997]
 Mexico City [since 1996]
 Bogotá [since 2011]

