

Latin America: Today's next investment frontier

By André Thiollier, Esq., Foley & Lardner LLP*

NOVEMBER 10, 2021

Latin America VC investments have skyrocketed over the past years to unprecedented levels from US\$4.3 billion in 2019 to US\$ 11.5 billion in 2021, including Q3 estimates in the most recent report issued by the Association for Private Capital Investment in Latin America (LAVCA).

Latin America has seen a boom of tech companies with the number and value of unicorns nearly doubling every year.

The most recent and comprehensive 200-page Atlantico's report on Latin America estimates that a total of US\$18.6 billion will pour into the region by the end of 2021, a staggering 250% increase in investments when compared to US\$5.3 billion deployed in 2020.

Latin America has seen a boom of tech companies with the number and value of unicorns nearly doubling every year. Startups such as Brazil's Nubank, Ebanx and Unico, Mexico's Kavak and Bitso, Argentina's Mercado Libre and Colombia's Rappi are some of the 20+ LatAm's unicorns as of Q3 2021 with some of them reaching decacorn status.

Brazil and Mexico make up nearly 50% of LatAm's GDP and it is of no surprise that these two countries are ranked as the top priorities for VC investors.

Looking into GDP compared to market cap, tech companies in the region represent 3.4% of the world's total market cap in the sector. As such, tech companies in Latin America have a huge potential for growth in areas such as financial services, agriculture, E-commerce, mobility, logistics and health.

Agriculture and financial services are historical pillars of the LatAm economy that are being transformed by technology.

Brazil's agriculture is today the leading provider of agricultural goods to the world and represents 21% of the country's GDP. Technology is helping increase efficiency in the sector. Precision agriculture technology is enabling farmers to produce more with less. It can further help efficiency in logistics between producers and buyers reducing traditional chain losses.

Areas such as auto guidance, fleet analytics, digital traceability of plant and animal products and precision irrigation among so many

new technology deployments in recent years have enable enormous productivity gains for this sector of the economy.

With deregulation of bank restrictions in many countries, Fintechs in 2020 represented 40% of all capital's investments in the region. Such deregulation and the widespread adoption of mobile devices usage by the general population in Latin America has allowed Fintechs to move ahead of traditional banks into uncharted markets providing better, faster, and cheaper services.

Contactless payments alone have jumped fourfold from US\$3.9 billion in 1Q-2020 to US\$18.6 billion in 1Q-2021 according to the Americas Market Intelligence's report: Latin America Payments 6 Megatrends for 2021. Although Mexico's CoDi digital payment system has had a slow start, electronic payments through Brazil's new electronic payment system Pix have jumped an impressive 2,500% in less than a year since its adoption according to the Central Bank of Brazil.

The Fintech boom is showing no signs of slowing down.

The bonanza in Latin America is also being driven in part by a shift in consumer behavior since the pandemic, with an incredible growth in online transactions in the region and an increased need for more robust digital services. Accounting for 8.4% of the world's population and only 12% of venture capital investments in the sector in 2020, LatAm e-commerce is in the verge of experiencing its glorious days.

While well thought political and economic analyses of the region are fundamental to make an investment decision, the pitfalls of Latin America jurisdictions ought to be carefully weighted.

These are some of the reasons why major global investment funds have allocated a huge chunk of their cash to the region. After pouring US\$5.0 billion in LatAm up to mid-2021, Japan's investment conglomerate Softbank has announced it will add another US\$3.0 billion to be deployed through its second Latin America Fund. Other global and local VCs will follow suit. But liquidity and growth projections do not mean a successful result.

There are inherited political, economic, and legal considerations in weighing up whether to invest in or allocate more funds to the region. Many Latin American countries such as Chile and Peru have experienced some sort of political turmoil in recent years. Argentina sunk into yet another economic crisis forcing the government to impose restrictions on outflows of capital. Brazil is seeing the return of pervasive inflation, which will lead its Central Bank to hike interest rates to pre-2017 levels.

Even with these challenges and hiccups that the region presents, private equity and venture capital investors are still moving forward with major investments in Latin American startups.

While well thought political and economic analyses of the region are fundamental to make an investment decision, the pitfalls of Latin America jurisdictions ought to be carefully weighted.

Not all Latin American countries are equal. Each has its own culture, its own economic attributes and most importantly its own legal system.

It is not uncommon that transactional documents are disregarded by local courts disrupting the will of the parties in benefit of national policy or yet that hasty legislation changes impact investments not carefully hedged.

Structuring correctly a LatAm transaction requires knowledge of the market and the countries involved, a hands-on experience in dealing in such jurisdictions and expertise in setting up alternatives to craft the safest (present and future) legal environment possible for the investor and the invested company.

There is great opportunity in Latin America and many game changing startups are seeing unprecedented success. However, it is critical for investors to fully understand the complexities of the region to make successful decisions.

Latin America is unquestionably the next frontier for investments in most sectors of the economy, as long as those investments are carefully planned and properly protected.

About the author



André Thiollier is a partner with **Foley & Lardner LLP**, where he is a member of the firm's transactions practice. Based in California's Silicon Valley, he focuses on mergers and acquisitions, private equity, emerging growth and venture financings, and general corporate and business counseling. His extensive experience in multiple jurisdictions, combined with fluency in different languages, allows Thiollier to better advise clients in cross-border transactions, particularly in Latin America. A version of this article was originally published Oct. 25, 2021, on the firm's website. Republished with permission.

This article was published on Westlaw Today on November 10, 2021.

* © 2021 André Thiollier, Esq., Foley & Lardner LLP

This publication was created to provide you with accurate and authoritative information concerning the subject matter covered, however it may not necessarily have been prepared by persons licensed to practice law in a particular jurisdiction. The publisher is not engaged in rendering legal or other professional advice, and this publication is not a substitute for the advice of an attorney. If you require legal or other expert advice, you should seek the services of a competent attorney or other professional. For subscription information, please visit legalsolutions.thomsonreuters.com.