DECIPHERING LATAM VC

Deep dive into the workings of the Venture Capital ecosystem in LatAm

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Table of contents

Authors & Partners of the research

To carry out this research, Endeavor has teamed up with two very well respected organizations: The Inter-American Development Bank (IDB) and the highly successful regional Venture Capital Investor Nazca, backer of companies such as Kavak, Crehana, Jüsto, Albo and many others. Each partner's interest in supporting the LatAm ecosystem is very much aligned and yet each partner brings a different perspective to the table: Endeavor brings the perspective of an organization focused on high impact entrepreneurship and ecosystem building; Nazca brings the perspective of a VC; IDB Lab brings the perspective of a public-policy entity. We believe that this variety will enrich our analysis of our dataset and we know that we could not have wished for better value-add partners to implement the study.

Special thanks

The authors of this paper would like to express their gratitude to Jose Miguel Benavente (formerly IDB), Carolina Carrasco (IDB), Hector Sepulveda (Managing Partner, Nazca), Adolfo Blasco (Principal, Nazca), Christoph Schiess (Board Chair Endeavor Chile), Jose Manuel Correa (Managing Director Endeavor Chile), who have added immense value to the final output of the study.

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endeavor

Since 1998, Endeavor has been leading the global movement of high-impact entrepreneurs to catalyze economic development in the 40 countries in which it operates. To this end, it selects and provides strategic support to entrepreneurs who are in the process of scaling, helping them to break down barriers and giving them the tools to be successful: a network of first-class mentors, contact networks, strategic support, talent, access to smart capital, access to markets, and inspiration. With Endeavor's help, these entrepreneurs are able to scale their businesses globally, generate economic sustainability, growth and jobs, become role models, and contribute to fostering an entrepreneurial culture that motivates future generations to think big. Endeavor also plays an ecosystem role and influences public policies through the generation of data, studies and knowledge that facilitate decision making and contribute to the formation of more and better entrepreneurs.

IDB   IDB | LAB

The Inter-American Development Bank's mission is to improve lives. Founded in 1959, the IDB is one of the main sources of long-term financing for the economic, social and institutional development of Latin America and the Caribbean. The IDB also conducts cutting-edge research projects and provides policy advice, technical assistance, and training to public and private clients throughout the region.

IDB Lab is the innovation laboratory of the Inter-American Development Bank Group, the main source of financing and knowledge for development focused on improving lives in Latin America and the Caribbean. The purpose of the IDB Lab is to promote innovation for inclusion in the region, mobilizing financing, knowledge and connections to test solutions from the private sector in early stages with the potential to transform the lives of vulnerable populations due to economic, social and environmental conditions. Since 1993, IDB Lab has approved more than US$2 billion in projects deployed in 26 countries in Latin America and the Caribbean.

NAZCA

Nazca was founded in 2014 with a challenging mission: to empower the best leaders in Mexico and Latin America, fully based on merit. To balance the status-quo between capital and talent. We believe that by doing so, we are setting our region on a path towards social and economic success.

By empowerment, we mean building the ultimate environment for each of our founders to thrive in. An environment where every leader and their teams can flourish and reach their maximum potential, faster. We provide multi-stage venture capital, early on. We deliver unique peer-learning opportunities as well as unparalleled expert networks. We enable unprecedented access to key stakeholders and critical gatekeepers. We facilitate swift entry and preferred relationships with renowned commercial partners. We help identify and persuade the most talented individuals to join our founders' teams. And most importantly, we do all this while creating a lasting and sustainable friendship.

A word from Endeavor

At Endeavor Research we are very happy to have participated in this study about Venture Capital funds in LatAm and as such to have brought to the market analyzed data from various countries in the region. This gives us an important input about advances and challenges as well as a basis for better public policies. Good entrepreneurs need good financing to be able to scale.

We have seen that the world is seeing changes and new concepts are emerging at an accelerated pace, and a lot of the time it's the new enterprises which support disruptive and valuable innovations. The great possibility that VC funds give to entrepreneurs – the ability to access financing and with this the ability to scale and accomplish the multiplier effect – is very valuable for the market and citizens alike.

In the past, access to capital was very difficult to access if you hadn't already accumulated savings or privileged relationships. Venture Capital changed this situation, making access to capital more agile and projects happen on a meritocratic basis. The idea that people can access capital on account of their merit has taken on a special importance across our continent and presents a great opportunity to improve social mobility.

In LatAm, there are many real problems in daily life which require solutions that are efficient and timely, but which take a long-term view. Startups and their innovations, with the proposition centered on improving people's quality of life, are in this way helping to give back confidence to the population, offering consumers value-propositions which are real. If these propositions are solid, good and new, the possibility of scaling and becoming global products exists.

We hope that this study will be helpful in understanding the advances and challenges in Venture Capital for the region, and in this way collaborate with these actors for a better future.

Christoph Schiess
President of Endeavor Chile

Better leaders build better companies

To decipher LatAm VC (or at least to have an actionable understanding of it) one must understand our history from 3 distinct angles. Firstly, talent and its satus-quo within our society. We come from an unbalanced past where capital reigned over talent. We often heard a quote in Spanish saying “el dinero manda” (money talks). Access to capital and opportunities where highly privileged and had dominating gatekeepers. Venture Capital changed this by streamlining access to capital on a more meritocratic basis. In other words, our best leaders are finally getting access to capital. Better leaders build better companies which in turn train better (future) leaders.Secondly, problems and proposed solutions.

LatAm has “real” problems. Problems that if solved, can improve many lives drastically. Most of our industries have been dominated by monopolies and oligopolies resulting in lower-than-expected value propositions to consumers (our consumer trust index is amongst the lowest in the world). VC backed startups are reverting this and offering consumers exorbitant value propositions in massive industries.

We’ve seen enormous success when founders focus simply on building better products/services instead of focusing on building something different. Regrettably, there are no shortcuts in LatAm, no silver bullets. However, there are many opportunities to make thing better (probably more than anywhere in the world). Lastly, vision and independent thinking. Many successful startups in LatAm are built on peer learning and inspiration. Business models that have been successful elsewhere are likely to be successful here. However, this source of inspiration is drying up rapidly (there are so much business models that can be replicated in LatAm).

Fortunately, founders are starting to look at LatAm from a different perspective and asking fundamental questions such as “what do we take for granted in LatAm?” or “If everyone has the same problem, then nobody sees the problem? “. Therein lie very powerful business initiatives that are more likely to be inspired by problems that are hard to identify at first (but then seem obvious) than by replicating what other have built elsewhere. We hope this study helps many to understand our region and collaborate with all LatAm stakeholders to keep building more and better.

Sincerely,
the Nazca Team

NAZCA

Executive Summary

What you need to know in 1 minute

During the course of Q4 2021, we surveyed +120 leading LatAm GPs on how they find, select, make deals and add value - These are their responses.

98% OF VCs

Recognize the founding team as the most important factor in the successful outcome of an investment.

82%

→ Of VCs always or often use pro rata rights as a contractual feature.

58%

→ Of deals are syndicated.

What you need to know in 7 minutes

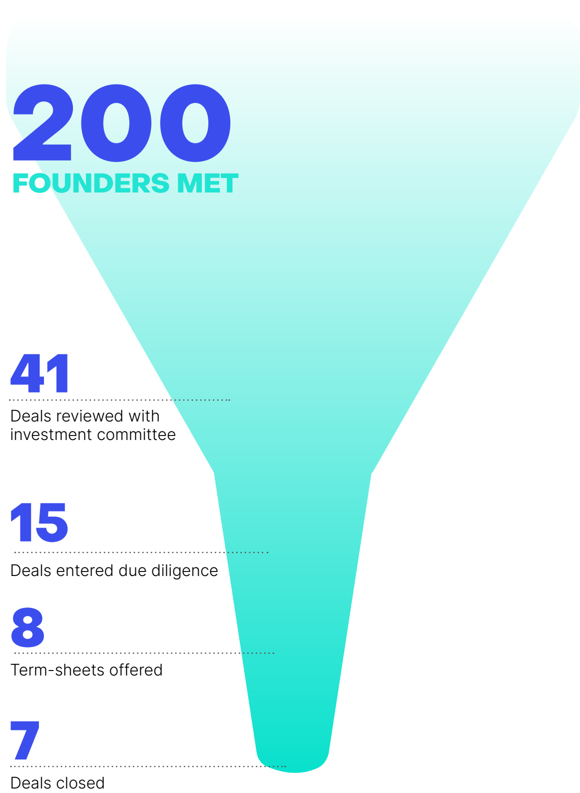
1 Deal origination

There is a collaborative investing environment

75% OF DEALS

are referred by a VCs network: other VC firms, professional networks, existing portfolio companies, LPs and entrepreneurs in residence.

The funnel is highly selective: VCs invest in only **3.5%** of prospective companies:



2 Deal analysis & Deal making

81% OF VCS CONSIDER THE TEAM TO BE THE MOST IMPORTANT FACTOR
when deciding whether to invest.

61% of VCs consider the ability to grow the business as the most important quality in the founding / management team.

91% of VCs use unit economics as a principal metric, followed by churn and sales margin.

VCs believe that entrepreneurs care most about the brand and reputation of the VC.

VCs consider founder dilution the second most important factor when deciding a valuation, suggesting a more founder-friendly ecosystem.

Pro-rata rights are by far the most frequently used contractual feature and by far the feature that VCs are the least flexible on.

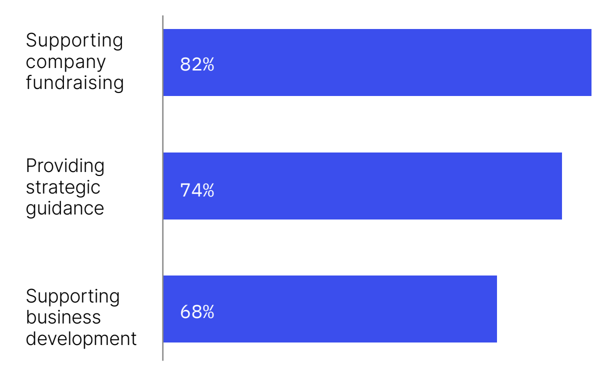
3 Adding value

The 2 greatest challenges that portfolio companies face are:

ATTRACTING AND MAINTAINING TALENT

EXPANDING INTO NEW MARKETS.

The most popular value adding activities performed by VCs are:



ON AVERAGE, VCS INTERACT WITH ENTREPRENEURS 2-3 TIMES A MONTH.

The vast majority are in contact with their portfolio between once a week and once a month.

4 Deal outcomes

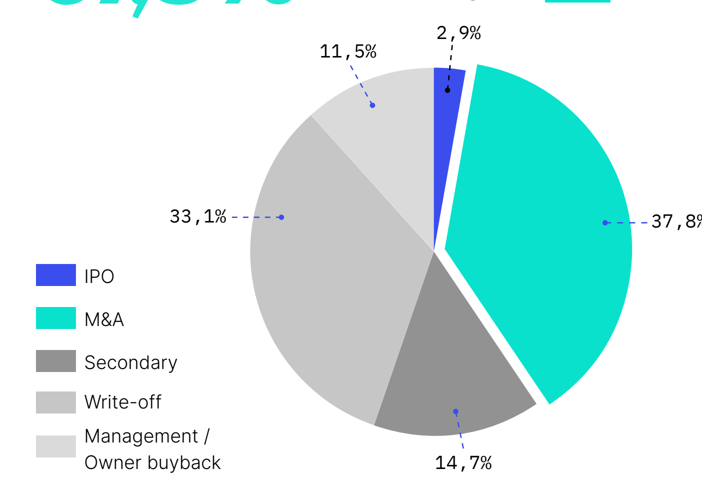
For VCs, **FOUNDING TEAM** is the key cause for successful investments, followed by the **BUSINESS MODEL.**

The main reasons for **INVESTMENT FAILURE ARE A LACK OF PRODUCT-MARKET FIT AND MANAGEMENT TEAM CONFLICT.**

ONLY 2,9%

of portfolio companies have a successful exit through an IPO.

37,8% do so through an M&A.



*Inside a high performing portfolio of a leading LatAm VC

At what stage do VCs see the different countries in the LatAm ecosystem?

The state of the LatAm ecosystem*

THE ECOSYSTEM IS STILL AT THE BEGINNING OF ITS LIFECYCLE: The median fund size ranges from US$ 50 - 99M

FUNDS ARE STILL YOUNG: 2016 is their mean 1st vintage year. Assuming a 10 year fund cycle, many of the VCs will not have liquidated their first fund at the date of the study

HALF OF THE DECISION-MAKERS ARE NEW TO THE VC INDUSTRY: 53% of respondents are first time fund managers, entering VC from another industry

VC IS AN ASSET CLASS OF OUTLIERS AND LATAM IS NO EXCEPTION:

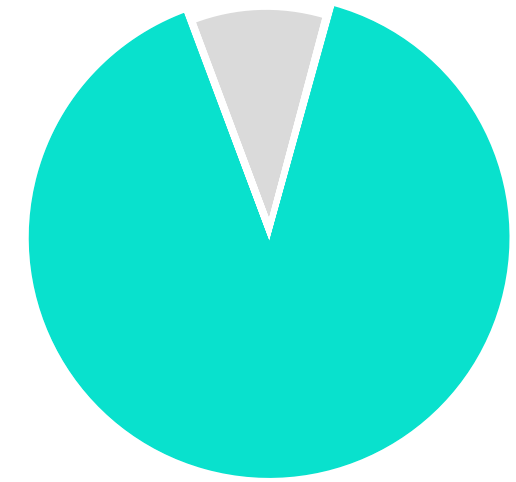
The top 5% of our data sample have US$ **500-1B FUND SIZES**

Unicorn backers have a considerably greater fund size: funds with unicorns have a **MEDIAN FUND SIZE OF US$ 100-199M**

Funds with unicorns in their portfolio tend to have been in the game for longer, with a mean first vintage year of 2013

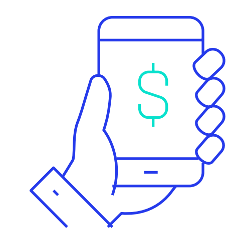
*Based on our survey responses

Ecosystem trends

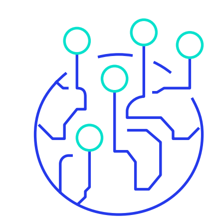


90.1%

of VCs consider the LatAm ecosystem to be in the early or mid-stages of its economic cycle



VCs consider the Fintech sector to be the most promising by far, although interest in other sectors is fairly evenly balanced.



VCs see the main macroeconomic risks in high interest rates, inflation and geopolitics

Context & Opportunity

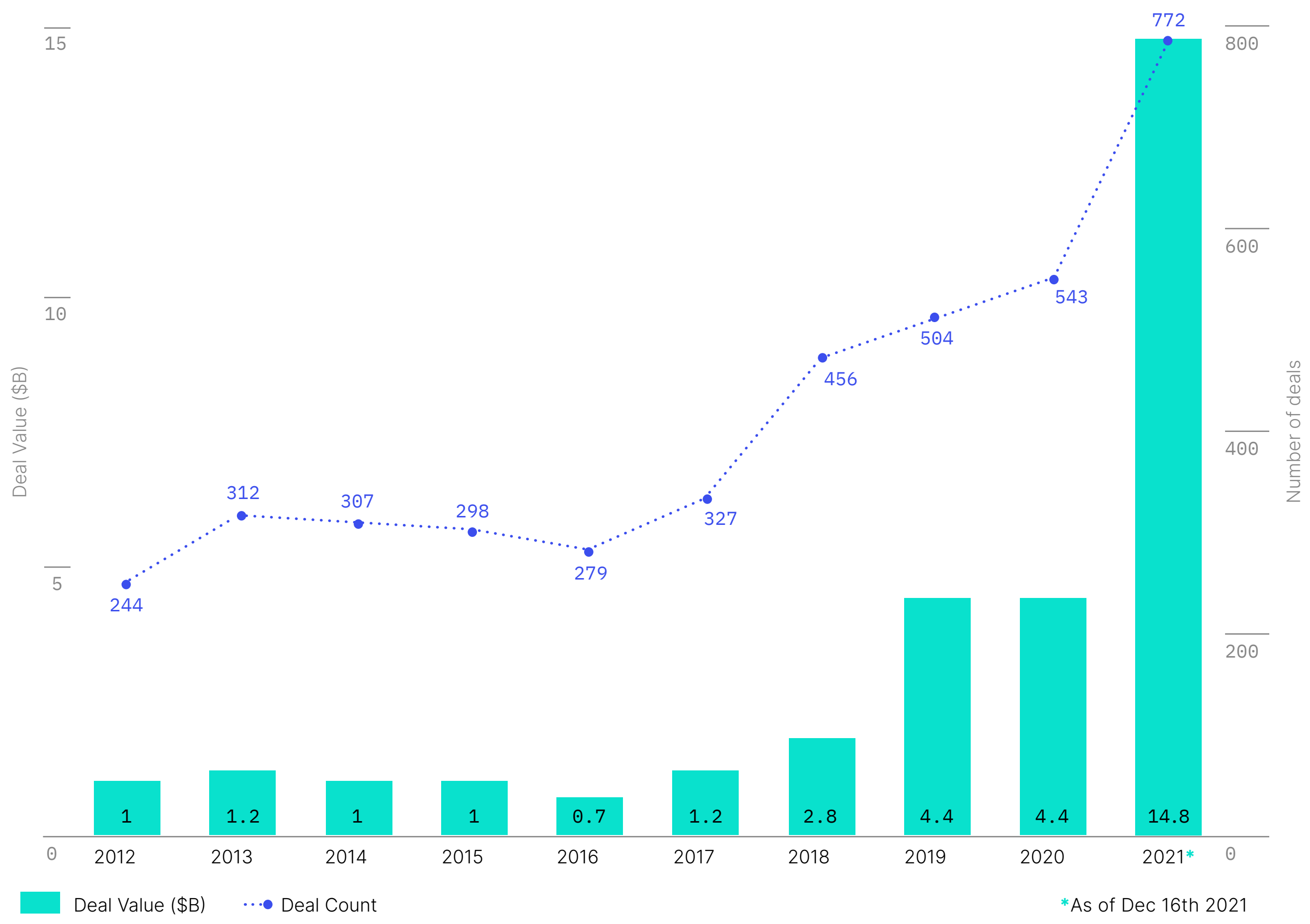
2021 has been a historic year for Venture Capital globally, with various regions – such as the US, Europe and China – reporting record levels of investment in the asset class. Yet despite this, the increase in investment in LatAm stands out: according to Pitchbook, funding last year was more than 3 times what it was in 2020 (figure 1).

Figure 1 also shows that while 2021 was a standout year, the growth in VC investment has been visible since 2017: There's a 87% CAGR from 2017 to 2021, yet if we take out this exceptional year you still have a substantial CAGR of 54% (from 2017 to 2020).

Growing VC investment does not only stem from a global trend of funding rounds increasing in size. If we look at the deal count, we can also see a consistent increase in the numbers of deals being made per year from 2017 onwards.

Moreover, the ecosystem is becoming increasingly dynamic as global investors turn towards the LatAm region. Leading funds such as Andressen Horowitz and Sequoia have started to invest, but without a doubt the most significant move was Softbank's decision to create a USD$5bn Vision fund in LatAm in 2019 - a fund greater than the total capital invested in the region in any year prior.

Figure 1 VC Investment in LatAm (prepared by authors based on Pitchbook Data, December 2021).

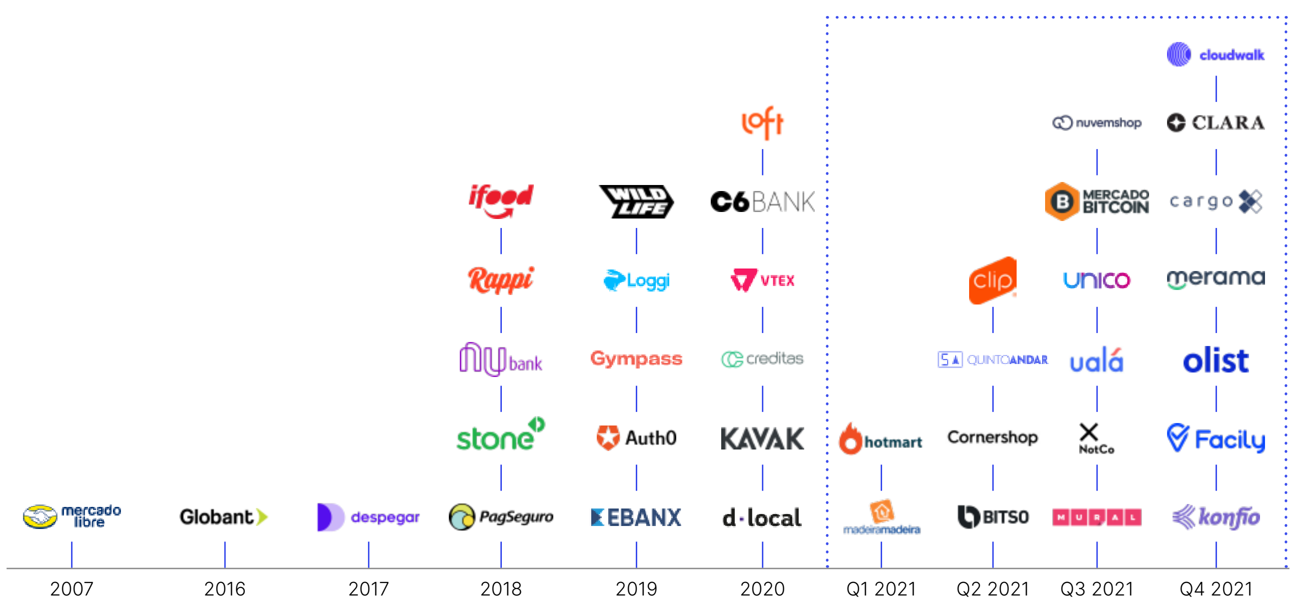


It's not only VC investment that shows a dynamic picture of the region, but also the class of entrepreneurs upon which they depend. VC as an asset class depends on outsized returns to justify its risk, and the portfolio companies which generate these returns are those which grow a lot and grow quickly; the most emblematic of these companies are unicorn companies, which for the purposes of this study, we have defined as a venture-backed company with a valuation of more than USD $1bn.

Figure 2 illustrates the development of these mythical companies in LatAm. The most striking feature of the figure is how quickly the unicorn herd has multiplied: from no unicorns minted before 2007, to a handful per year for 2018 and 2019, to 20 being minted in 2021 alone. These unicorn companies are so important because they serve as examples of what can be achieved - from Mercado Libre being the 1st unicorn and now one of the most valuable listed company in Latin America, to high growth scale-ups such as Rappi, DLocal and NotCo showing that these valuations can be achieved from smaller markets such as Colombia, Uruguay and Chile. These companies also often create and develop a talent-pool that start their own companies that help transform different sectors in different places. The success of these companies is so important because it multiplies outwards throughout the ecosystem.

All of these signs point towards an emerging ecosystem that has hit an inflection point and has finally found its stride.

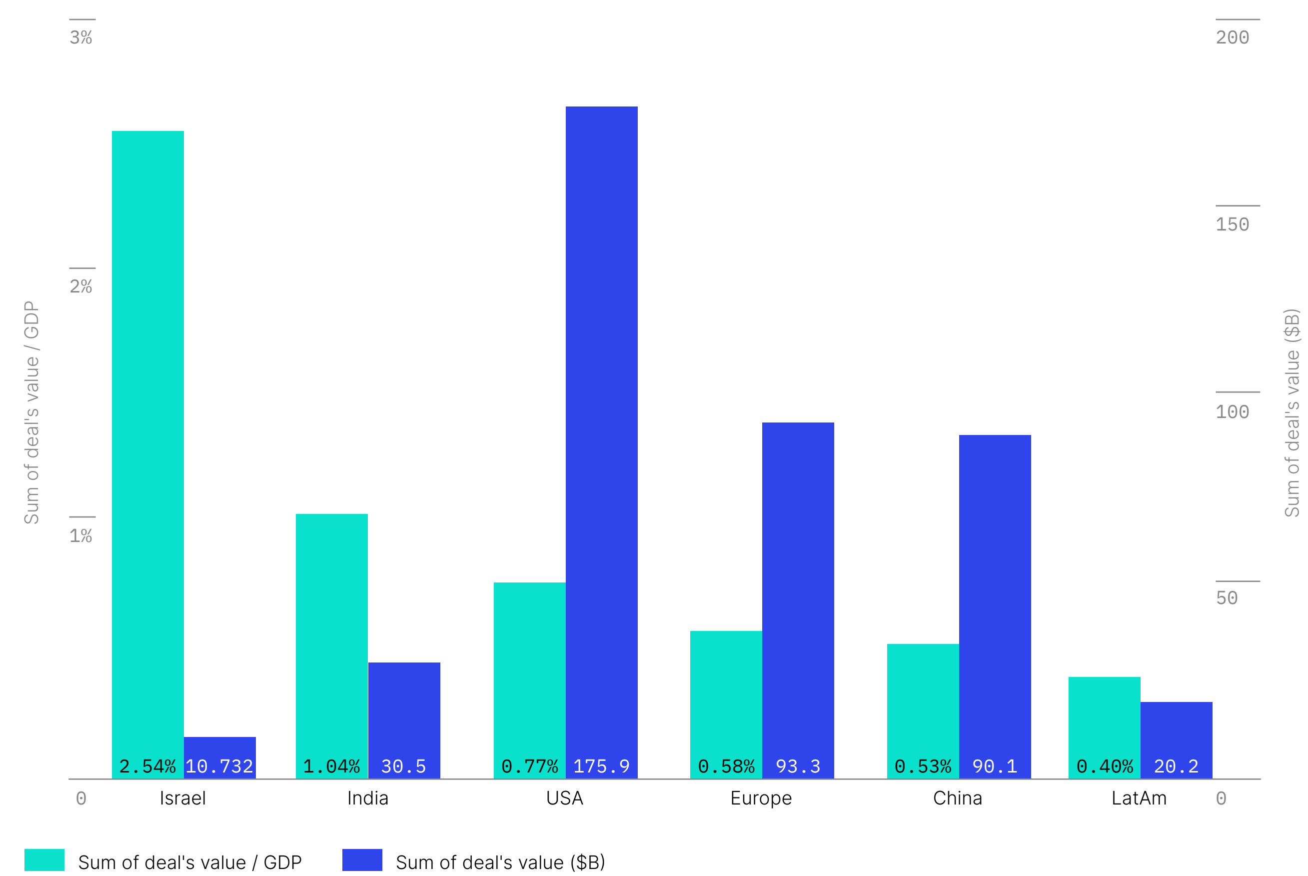
Figure 2 LatAm's Unicorn herd (LAVCA, CB Insights, Crunchbase and media reports)



However, despite these rapid transformations, the LatAm ecosystem still lags behind its potential. Figure 3 illustrates this by comparing the levels of Venture Investment with the GDP of the region: here we can see that venture investment represents a lower proportion of GDP than in any other major region. This untapped potential can also be observed through a number of other lenses: LatAm has a population of 650 million people[1] which, until recently, had a GDP per capita slightly smaller than that of China[2]; it's also characterized as a market that is frequently underserved, for example the banking sector has some of the highest margins in the world[3] but almost half of the adult population remains unbanked[4].

In other words, while LatAm has seen an explosion of money flowing into its entrepreneurial ecosystem, the level of that funding relative to the market within which these entrepreneurs operate is still relatively small. There is still a considerable amount of space for the VC ecosystem to grow, indicating that LatAm will continue to be a dynamic ecosystem for the foreseeable future.

Figure 3 VC Investment vs GDP for various regions (CB Insights and projected GDP data from the IMF for 2021. The graph was modelled from one originally designed by Atlantico)



1 World Development Indicators (WDI), Population Latin America & Caribbean. 2020. World Bank.
2 World Development Indicators (WDI), GDP per capita (current US$), 2020. World Bank.
3 The Global Financial Development Database. Bank's Return on Equity [DDEI06BRA156NWDB]. 2020. World Bank.
4 Demirguc-Kunt, Asli; Klapper, Leora; Singer, Dorothe; Ansar, Saniya; Hess, Jake. 2018. Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution. Washington, DC: World Bank.

Introduction

Given the dynamic and expanding nature of the LatAm ecosystem, Endeavor Chile - with the support of IDB and Nazca - have decided to carry out this study to shed more light on the dynamics at play. Specifically, we've decided to focus on the decision-making process of LatAm VC funds to try and better understand precisely where capital is invested and why. To do this, we surveyed more than 100 VCs and asked them how they make decisions about their investments and portfolios, generating relevant data for a base-line that will allow us to continue to monitor the LatAm ecosystem and make interesting follow up studies.

Fundamentally, the Access to Capital team of Endeavor Chile asserts that the focus on the decision-making processes of VCs will be beneficial to the ecosystem because it demystifies the process through which capital is allocated, for example why it is allocated to certain entrepreneurs and not others.

From the **perspective of the VC** this transparency in the decision-making process is beneficial. For one, the more entrepreneurs that understand and meet the criteria for VC investment the more options the VCs have in where to allocate their capital.

Furthermore, the findings of this study will allow VCs to benchmark themselves against their peers and see where they fit in the regional ecosystem. Understanding this, they can better identify where it is that they can add value and how they might make themselves attractive as investors bringing smart capital.

From the **perspective of the entrepreneur**, this is invaluable because to be able to scale-up and make an impact entrepreneurs need capital, and this capital comes from VCs; indeed, a previous Endeavor research effort focused on Chile ranked Access to Capital as the number one challenge in scaling-up.[5] Understanding the exact criteria that Venture Funds use to invest can help entrepreneurs meet those criteria and get the funding they desire.

Finally, from the perspective of public-policy entities, understanding what motivates VCs to make certain decisions over others is crucial for designing effective incentives and focus efforts in certain directions.

5 Melhado, J., Barriga, A. et al. "Scale-ups en Chile, Desafíos para impulsar el ecosistema". Endeavor Chile & Matrix Consulting, 2021.Disponible en: http://www.endeavor.cl/scaleups_desafios/

Understanding what drives VCs in their investment decisions is crucial to the future development of the LatAm ecosystem to benchmark, share best practices and raise the bar.

This can have benefits for innovation throughout the whole ecosystem by helping the entrepreneurs - the innovators - to acquire access to capital. While data for this exists in other ecosystems, especially the US, to our knowledge there is very little data specifically devoted to the LatAm ecosystem, which is where this study can be of service.

* The core of this paper is an in-depth analysis of the decision-making process of LatAm VCs, delving into each stage of the journey of a deal, from origination to outcome:

* The **1st section** focuses on **how VCs find their prospective deals**, and the process of converting a prospective deal into a done deal (the funnel)

* The **2nd section** focuses on the **criteria used to analyze a deal** and make a decision, with part of the chapter specifically focused on ESG criteria and how they are incorporated.

* The **3rd section** looks at the process of **closing a deal.** It focuses on the key issues of the deal, such as the most important contractual features and the factors determining a valuation.

* The **4th section** delves into the pain-points of entrepreneurs and **how VCs add value** (the 'smart' in 'smart money')

* The **5th and final section** then looks at **deal outcomes**, why and how often portfolios succeed or fail and by how much.

The study then moves into a broader analysis of the LatAm ecosystem, first diving into the geographical disparities between VCs in different countries before finally looking at which macro trends seem like they're going to shape the future of the region.

* The **geographical section** focuses on where VCs are headquartered, which countries they invest in and how the characteristics of these VCs differ from country to country.

* The **macro trends** section focuses on how VC's perceive the near future of the region, whether they are optimistic or pessimistic, as well as the main risks the region might encounter in the near future within an evolving macro context.

Methodology

To achieve this, Endeavor Chile sent out a survey between November and December 2021 and then analyzed the data using a quantitative research approach. Our survey was inspired by a similar study about how US VCs make decisions, and we adapted the original questionnaire to better reflect the state of development of the Latin American ecosystem. As such, many questions are the same as those in the original survey while others are slightly adapted: for example, sometimes the phrasing of the question was changed, or the options that the respondent could select were altered. Additionally, we included new questions specific to the Latin American ecosystem.

Our research does not intend to create a comparison with the US paper, but rather to observe and define the conditions of the LatAm ecosystem. However, we compare the behavior of VCs in the 2 ecosystems in the variables that allow it, under the hypothesis that the US has a more robust and developed ecosystem than LatAm and that, therefore, it is a benchmark worth observing.

To complement our inferences from the survey results we have carried out 8 interviews with different stakeholders who are active members of the ecosystem and deeply familiar with the dynamics of the VC decision process.

Data sample overview

The results presented in this document are based on a survey conducted and developed by Endeavor Chile between November and December 2021. The survey was designed to take no more than 30 minutes for venture capitalists to fill out. The VC database was built from a combination of internal data from Endeavor's LatAm offices and complimentary Crunchbase data. The survey questionnaire was sent to 219 VCs and CVC funds in the region. A total of 116 individual responses were received, of which 88 corresponded to VCs (a 67% response rate); the rest were distributed among CVCs, angel investors, private equity firms and others. Only the 88 responses from VCs are considered in this report. These responses were in large part from senior investors within VC firms (73% of respondents are Managing partners or Partners), meaning that these responses reflect the views of the decision-makers within their respective VC firms. Some VCs did not answer all the questions, and consequently in some areas not all 88 firms are represented.

Confidentiality

Endeavor maintains the confidentiality of its data: collected data is accessible only to Endeavor and Endeavor alone has access to the granular data.

Limitations

Although an effort was made to be as complete as possible in the data collection, the observed data used in this study is a very developed representation of the LatAm VC population. However, we do not claim it is a complete representation and it may omit certain data or attributes. The opinions expressed in this work are those of the authors and do not necessarily reflect the views of the IDB, its Board of Directors, of the countries they represent, nor the IDB LAB Donors Committee or the countries it represents.

Demographics - Key Takeaways

Given that more than

80% OF FUNDS

have less than US$ 200M AUM, the ecosystem is still at the beginning of its lifecycle; the median fund size ranges from

US$ 50 TO 99M

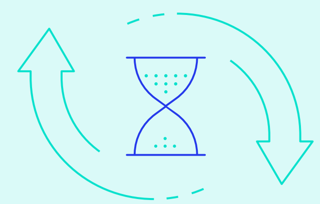
and the top quartile fund size contains funds above US$

100M

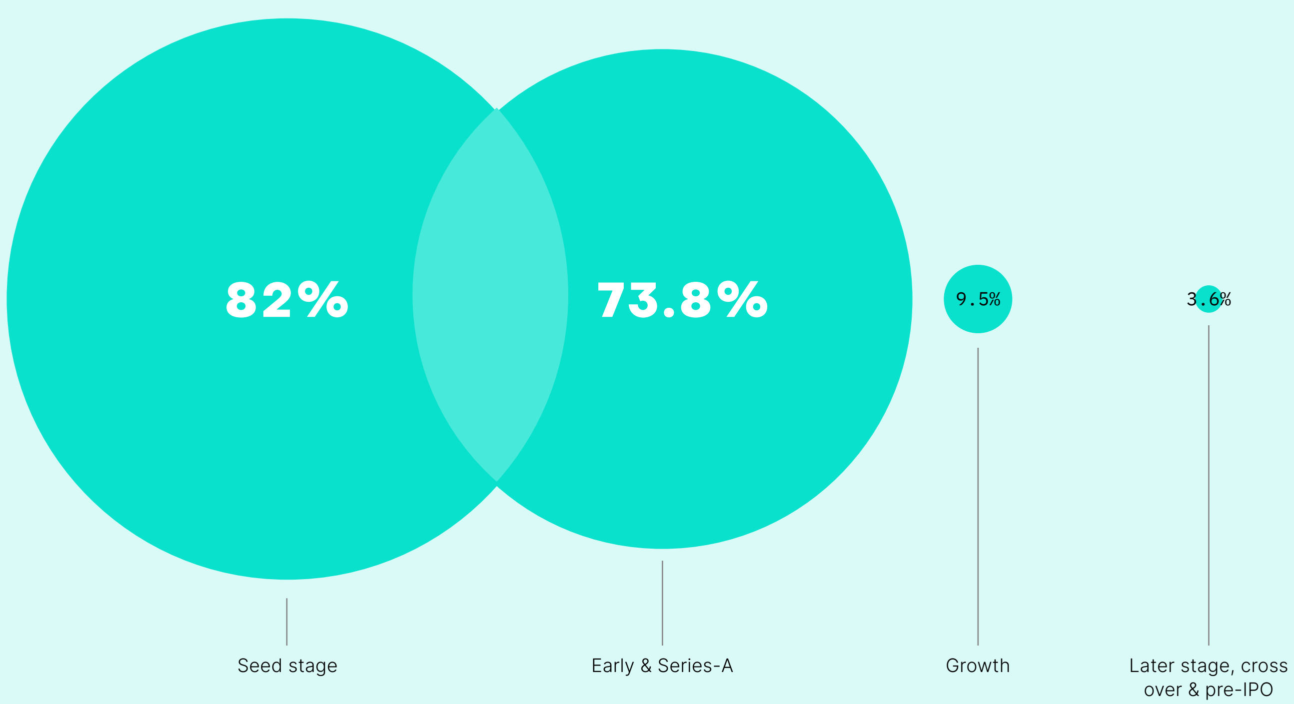
Funds are still young:

2016

IS THEIR MEAN 1ST VINTAGE YEAR. Assuming a 10 year fund cycle, many of the VCs will not have liquidated their first fund to the date of the study.



The smaller fund sizes also reflect the more early stage focus of the funds: 82% of respondents declared that they invest in seed stage entrepreneurs, 73.8% in early and Series-A, 9.5% in growth and 3.6% in later stage / cross-over & pre-IPO. We can observe that funds generally invest across stages, but with significantly greater engagement in early stage rounds

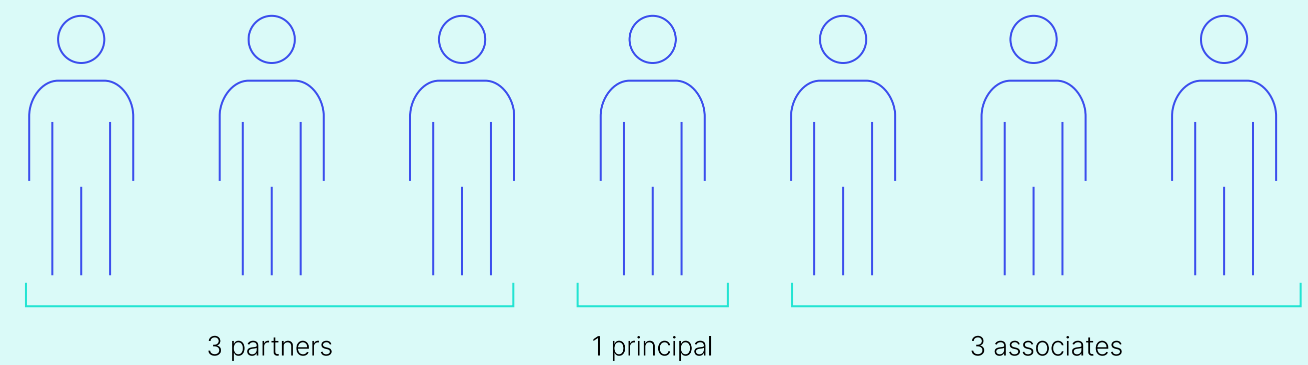


VC is an asset class of outliers and LatAm is no exception: the top 5% of our data sample make up funds that have US$ 500 - 1B fund sizes; 33.3% of our data sample[6] (21 funds) declared to have unicorn companies in their portfolio valued at US$ 1Bn.

HALF OF THE DECISION-MAKERS ARE NEW TO THE VC INDUSTRY:

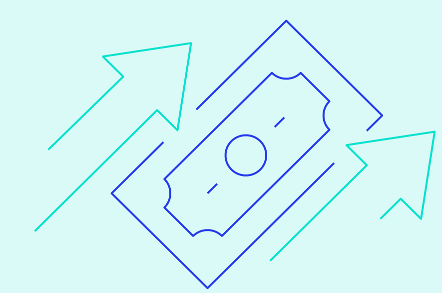
53% of respondents are first time fund managers,entering VC from another industry.

Management teams tend to be relatively small with an average team size of 7 full time investment professionals and a low participation of women: 3 partners, 1 principal and 3 associates. On average, women represent 22% of the funds' partners.



Most decision-makers came from other investment careers:

32%



INVESTMENT PROFESSIONALS

32% are investment professionals; **19%** are former entrepreneurs; **16%** come from the corporate sector; **11%** come from consulting; **7%** are former C-levels of a startup and **15%** come from other backgrounds.

6 The actual percentage of VCs with unicorns in their portfolio is probably below 33.3% in LatAm's VC ecosystem - we consider our figure to be inflated as we specifically sought out the region's leading funds to answer the survey.

Segmentation variables

When diving into the decision-making process of LatAm's VCs, we identified many possibly interesting sets for comparison. We decided to examine 3 groups, using those to benchmark and compare: 2 groups come from within our data sample, and one exists in comparison to our data sample (US VCs). We will only show comparison groups when we find significant variances, and we will otherwise omit them from our analysis.

Funds with unicorns in their portfolio vs. those without unicorns among their investments

One of the key questions we wanted to answer when we set about conducting this research was whether funds containing companies valued at over $1Bn USD in their portfolio - a key success indicator - possess different characteristics to those funds which do not yet contain such companies. 33% of respondents said that they had invested in companies valued at over $1Bn USD, and 66.6% said that they did not.[7]

We can observe certain characteristics which distinguish funds with unicorns from those without them:

Table 1 Comparison between unicorn investors and non-unicorn investors

	UNICON INVESTOR	NON-UNICORN INVESTOR
Mean first vintage	2013	2017
Mean # last capital raise	US$ 137M	US$ 30M
Median fund size	$100- 199M	$10 - 50M
Average team size	9	6

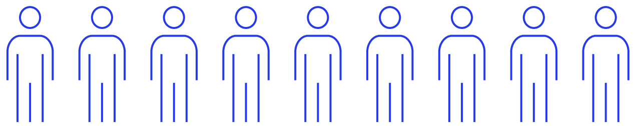
[7] We are not arguing that these funds have unicorns in their portfolio because of a certain investment behavior, nor are we arguing that having a unicorn in your portfolio will significantly change your behavior. We cannot make these distinctions as the data does not show when the fund first invested in a unicorn, and as such no extrapolations can be made as to how this might have affected their behavior; we have no before and after.

Funds with unicorns in their portfolio tend to have been in the game for longer, with a mean first vintage year of

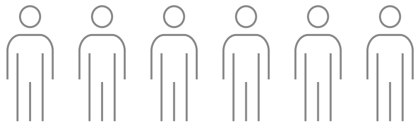
2013

(in comparison to the mean of 2017 for the non-unicorn investors).

Unicorn backers seem to have larger average team sizes as well: they had an average team size of 9,



in comparison to the average team size of 6 for non unicorn backers.



Unicorn backers seem to have a greater fund size: funds with unicorns have a median fund size of USD $100-199M and a mean last capital raise of USD $ 137M; by contrast, investors that don't yet have unicorns among their portfolio companies have a median fund size of USD $10-50M and a mean last cap raise of USD $ 30M, equipping them with a quarter of the investable capital.

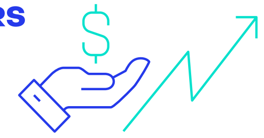
Mean last capital raise:

US$ 137M

UNICORN BACKERS

US$ 50M

Investors without unicorns



Former entrepreneurs turned senior VCs vs. respondents from other backgrounds

The professional background of an investor can also be a determining factor when making an investment decision, as well as in the behavior of an investor. Indeed, previous research by Endeavor Insights showed that top VC firms tend to have more former operators involved - both entrepreneurs and C-levels - than an average VC firm does[8]. Whilst we do not have data to support or contradict this affirmation, we were interested in discovering whether former entrepreneurs turned VCs had a different decision making process and priorities to VCs who had not been entrepreneurs beforehand. As such, we have segmented our data set between those who previously declared themselves as founders/entrepreneurs (18.82%) and the rest (81.18%).

To be clear, this category refers purely to the individual responding to the questionnaire and not to the fund as a whole. As such, funds classified as entrepreneurial are those funds where a former entrepreneur happened to be the individual answering the survey and we were curious to see whether they answered certain questions differently.

[8] https://techcrunch.com/2015/12/02/entrepreneurial-experience-separates-top-vcs-from-other-investors

Table 2 Comparison between entrepreneurial VCs and those from other backgrounds

	ENTREPRENEURIAL VCS	OTHERS
Mean first vintage	2015	2016
Mean # last capital raise	US$ 104M	US$ 58M
Median fund size	US$ 50 - 99M	US$ 50 - 99M
Average team size	11	7

We can observe differences between entrepreneurial VCs and VCs of other professional backgrounds, according to our classification of the individual answering the survey:

In relation to their 1st vintage, former **entrepreneurial VCs started slightly earlier than the others.**

The entrepreneurial VCs' last capital raise was close to the double of the others, raising at

USD $104M

AGAINST USD $ 58M

The median fund size of entrepreneurial VCs is in the range of **USD $50 - 99M - equal to that of other VCs.**

The average management team size is notably larger with

11 **PROFESSIONALS IN ENTREPRENEURIAL VCS TEAM** against the 7 professionals average team of the others.

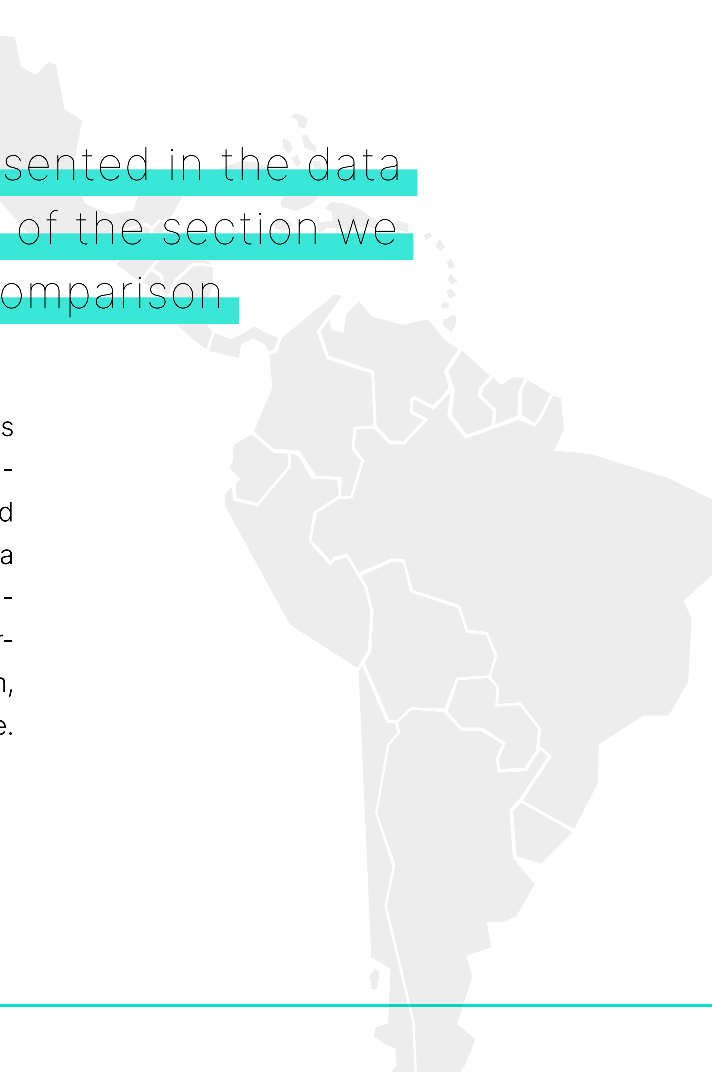
Geographical approach

We have 2 sets of segmentation variables based on geography. The 1st appears throughout the study, and is the comparison we make between the responses from our survey and those of the US ecosystem. We're using the US ecosystem as a benchmark for our own study, given the comparable data sets and the maturity of the US venture ecosystem.

The 2nd set of segmentation variables exists within our own survey, where we classified VCs based on the country where they have their declared headquarters (HQ). We wanted to observe if the characteristics and investment behavior of VCs varied based on the location of their HQ. While we have dedicated a section in the body of the study of geographical comparisons to analyze these, we wanted to make some methodological points here beforehand.

When we asked firms where they have their HQ, we gave them the opportunity to choose more than 1 country, given that some regional VC´s are based in several different countries. To avoid the duplication of VCs in geographical comparisons, we proceeded to locate VCs in a single country using public information provided by the fund (e.g LinkedIn or their website) - we could only do this in the instances where the respondent voluntarily provided the name of their fund. This allowed us to increase the representation of the geographical focus of the fund to 93% of respondents.

There are 11 countries represented in the data sample, and in certain parts of the section we grouped them to allow for comparison



Brazil, México, Argentina and Chile remained as individual countries throughout; Costa Rica, Panamá, Guatemala and El Salvador were grouped as Central America. Although the U.S. is not a Latin American country, some VCs with headquarters in the U.S., especially Miami, operate predominantly or exclusively in LatAm, and as such they are considered in our data sample.

How LatAm VCs make decisions

Dealflow Origination

Deal analysis

Deal making

Adding value

Deal outcomes

The process of investment decision-making is composed of a series of identifiable steps. VCs are expected to earn a return from an investment decision which meets a mandate in the fund’s performance; therefore, they will cautiously evaluate where to allocate their LPs' money. Whilst examining each of these steps in turn, we will also break up the data sample of respondents into several different comparison variables to shed more light on the whole spectrum of VC operations.

1 Dealflow Origination

The 1st section focuses on how VCs find their prospective deals. It first examines the different sources of prospective dealflow, before examining the VC deal flow funnel: the number of entrepreneurs who make it through each stage of the process of a VC investment decision.

2 Deal analysis

The 2nd section focuses on the criteria used to analyze a deal and make a decision. This section first examines the overall most important factors in an investment decision, before narrowing down on the key factors that determine their assessment of the founding team. A subsection is specifically focused on ESG criteria and how they are incorporated into the decision-making process.

3 Deal making

The 3rd section looks at the process of closing a deal. It first analyzes the factors which inform how VCs reach a given valuation, then it examines what VCs believe entrepreneurs value most in prospective VCs. The chapter closes by looking at contractual features / terms, and how important they are to venture firms when making a deal, first looking at how frequently the features are used, and then how flexible VCs are about including a given feature.

4 Adding value

The 4th section delves into how VCs add value, the ‘smart’ in ‘smart money’. It first looks at the number of touch-points that VCs have with their entrepreneurs, then the value-adding activities that VCs perform and how frequently they perform them, before finally examining what VCs believe are the main challenges that portfolio companies face.

5 Deal outcomes

The final section looks at the outcomes of deals. It first examines what VCs believe to be the main causes of success and failure in their investments, before looking at how these companies manage to exit into the wider world and how often they do. The section concludes by looking at the multiples that VCs tend to achieve, and metrics which most interest LPs when they hear about the performance of VCs.

Deal Origination

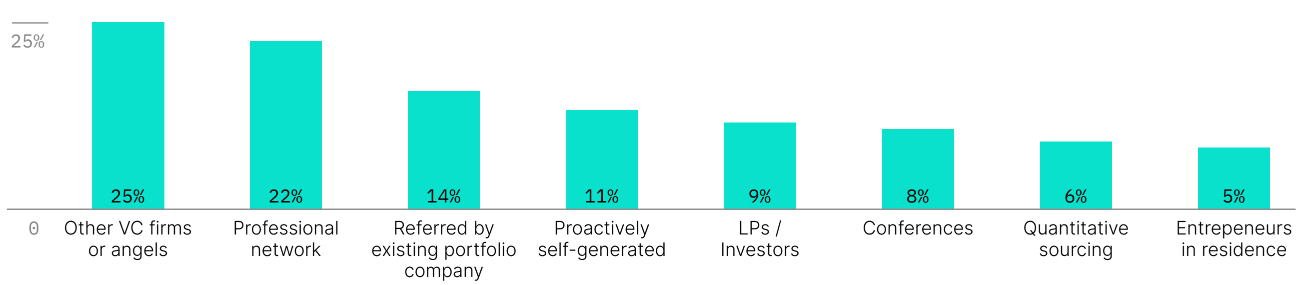
↪Dealflow origination - or sources of proprietary dealflow, as many VCs call it - is a crucial factor for a successfully operating VC. Venture Capital as an asset class is ultimately dedicated towards entrepreneurs, so having access to the best quality deal flow (the best entrepreneurs) is crucial. However, much of this access depends on others involved in the asset-class, such as angel investors and other VCs; dealflow ultimately depends on access and networks. On the subsequent pages we will dive deeper into this first segment of the venture capital value chain.

Most dealflow comes from a VC's close network: 25% of deals are referred by other VC firms or angels, 22% through professional networks and 14% from existing portfolio companies. Only 11% is proactively self-generated. As such, little inbound dealflow comes from entrepreneurs who beat a path to the VC's door without any prior connections.

Comparing the US study with the LatAm data sample, we can see that the US allocates greater overall importance to professional networks (31%) and self-generated dealflow (28%); in LatAm, it seems that a sizable part of dealflow comes through other VCs or angel investors, which indicates a fairly collaborative investing environment. This opens the interesting question of whether the higher percentage of self-generated dealflow in the US leads to more contrarian bets (bets against the mainstream) overall, in contrast to the LatAm ecosystem where dealflow seems to be shared across investors.

Figure 4 Sources of Dealflow

How many of the deals that your fund closed in the last 12 months were generated via each of the following sources? Estimate if you are unsure (n=64)



It's worth noting that the data cannot tell us about the quality of respective dealflow; there might be some sources of dealflow that provide less quantity, but significantly higher quality. For instance, referrals by existing portfolio companies is generally praised as an attractive source of high quality dealflow.

For VCs and entrepreneurs alike reading this study, the main insight is that networks clearly do matter to a great degree in the asset class, whether those are networks with other investors in the ecosystem, professional networks or referrals. The higher percentage of pro-actively self generated dealflow among US VCs provides an interesting counterbalance and it will be interesting to see how sources of dealflow continue to evolve in the LatAm ecosystem.

1.1 Funnel conversion

Once a VC has generated inbound dealflow, there is a multi-stage selection process to sort through investment opportunities, commonly referred to as a funnel. This process starts with the originator of the potential deal - who is usually a partner, junior, or associate - convincing the rest of the team that the deal is worth further looking into. Once team approval is reached, an extensive due diligence process begins: references are contacted, industries analyzed and potential regulatory problems scrutinized. If the potential deal passes the process, terms and conditions for an investment are offered so that the parties can reach an agreement and close the deal.

Deal conversion is generally low because of the high risk nature of the VC asset class: VCs on average look at hundreds of deals per year, but only close a few of them. Our LatAm data sample is no exception.

Figure 5 Median funnel conversion across dealflow stages

Of the investments your fund analysed in the last 12 months, how many reached each of the following stages? Estimate if you are unsure (n=64)

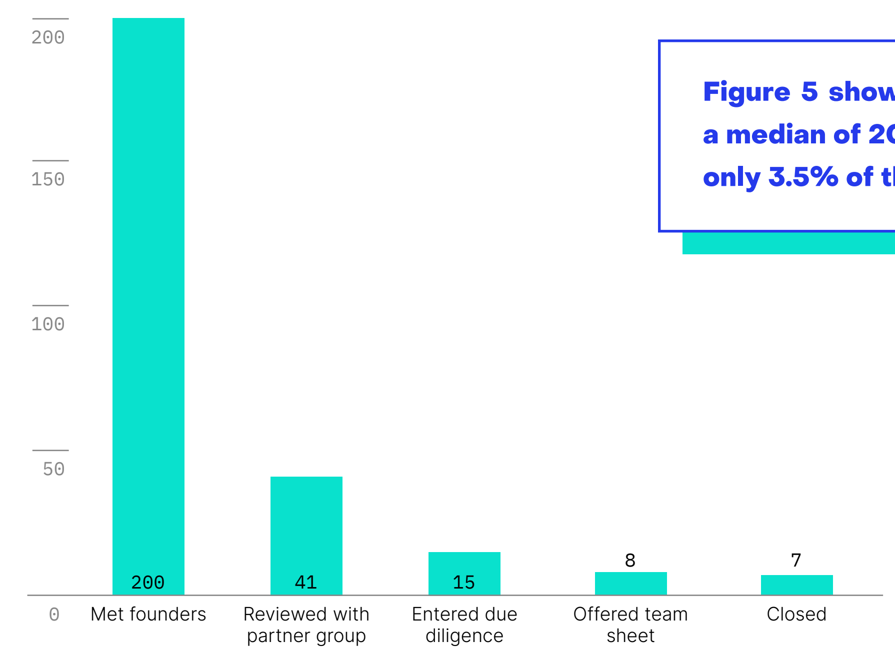


Figure 5 shows that after analyzing a median of 200 deals, VCs invest in only 3.5% of them.

This tremendous capacity for selective downsizing does not only apply to the number of deals that are closed, but also to both the number of term-sheets that are offered and deals that enter due diligence. Because due diligence involves the investment of a lot of resources, only 7.5% of potential deals reach this stage. And of the 15 potential deals that enter the process, only half receive a formal investment proposal. The process is so selective that practically all of the deals that receive a term sheet end up in a closed deal.

This behavior is consistent with that of US VCs. Each one receives a large number of potential investments and as it progresses it consistently reduces its investment decisions to a median of 4 closed deals. In comparative terms, VC firms from the US on average offer 1.7 term sheets for each deal that they close, a close rate of 60%; in LatAm that figure is reduced to 1.2 term sheet per deal, a close rate of 81%. This difference could be due to a more competitive and developed industry in the US, where VCs have to offer more term sheets on average to close a deal, owing to the greater choice and leverage that founders have over investors.

A comparison between our unicorn and non-unicorn data samples reveals that on average VCs with unicorns in their portfolio get 27% more potencial deals and close 50% more (10.5 investments vs. 6).

VCs with unicorns in their current or past portfolio are probably more attractive to entrepreneurs and are likely to generate better engagement with those entrepreneurs. This is in no small part because of the prospect of achieving similar success to the unicorn companies in that VCs portfolio, and the prestige that these VCs present to entrepreneurs given their past success. As such, these unicorn funds can achieve a higher amount of deal conversion at the end of the funnel.

A comparison between our unicorn and non-unicorn data samples reveals that on average VCs with unicorns in their portfolio get 27% more potential deals and close 50% more (10.5 investments vs.6).

EXPERT COLUMN

"Given that the region has been historically under-invested there has been a lot of motivation to share investments to get the flywheel spinning."

It is great to see a fairly collaborative investing environment in LatAm. This might be further incentivised by the variety of VC associations and WhatsApp Groups across the region that encourage co-investment and deal sharing.

A wide funnel in deal conversion is generally a good sign - it means that funds are highly selective when choosing which deals to invest in. Ultimately, funds are measured by their successful investments and to invest in a few good deals one has to look at many deals that are ultimately passed on.

Antonia is cautious about designing shortcuts to make the funnel more efficient, as jumping steps can lead to additional biases in the investment process. **"We are already trying hard to reduce structural biases in the investment process, strengthening shortcuts might create new biases, which should definitely be avoided."**

Antonia on how ALLVP manages it's dealflow:

At ALLVP, the team relies on a proprietary process which includes the support of tools such as Airtable, Slack and Attio. They have spent a lot of time making the process more efficient and optimized. Antonia especially highlights the degree of synchronization between team members to ensure alignment in the decision making process to avoid spending unnecessary time on double input.

On how to increase dealflow as an emerging fund manager:

For emerging fund managers, good tactics to make a name for yourself and increase inbound dealflow are to create content, collaborate with other investors and invest heavily in your own personal network. These will help you identify potential opportunities early-on. Becoming a domain expert in a certain industry can also help increase your profile and differentiate you from the crowd.

ANTONIA ROJAS

Partner at venture firm ALLVP

Deal Analysis

↪The decision to invest in a company is a multifaceted process, conventionally looking at both qualitative and quantitative aspects of the business and its founding team. Understanding which factors to emphasize - the founding team, the core business and technology, or the business's metrics - is crucial for entrepreneurs to be successful in the capital raising process.

In our data sample, as shown in Figure 6, the founding team is by far the most important factor when deciding whether to invest - 81% of respondents ranked it as such. Ranked after this are the business factors, which were widely regarded as important(total addressable market (31%), product/technology (29%) and scalable business model (21%).

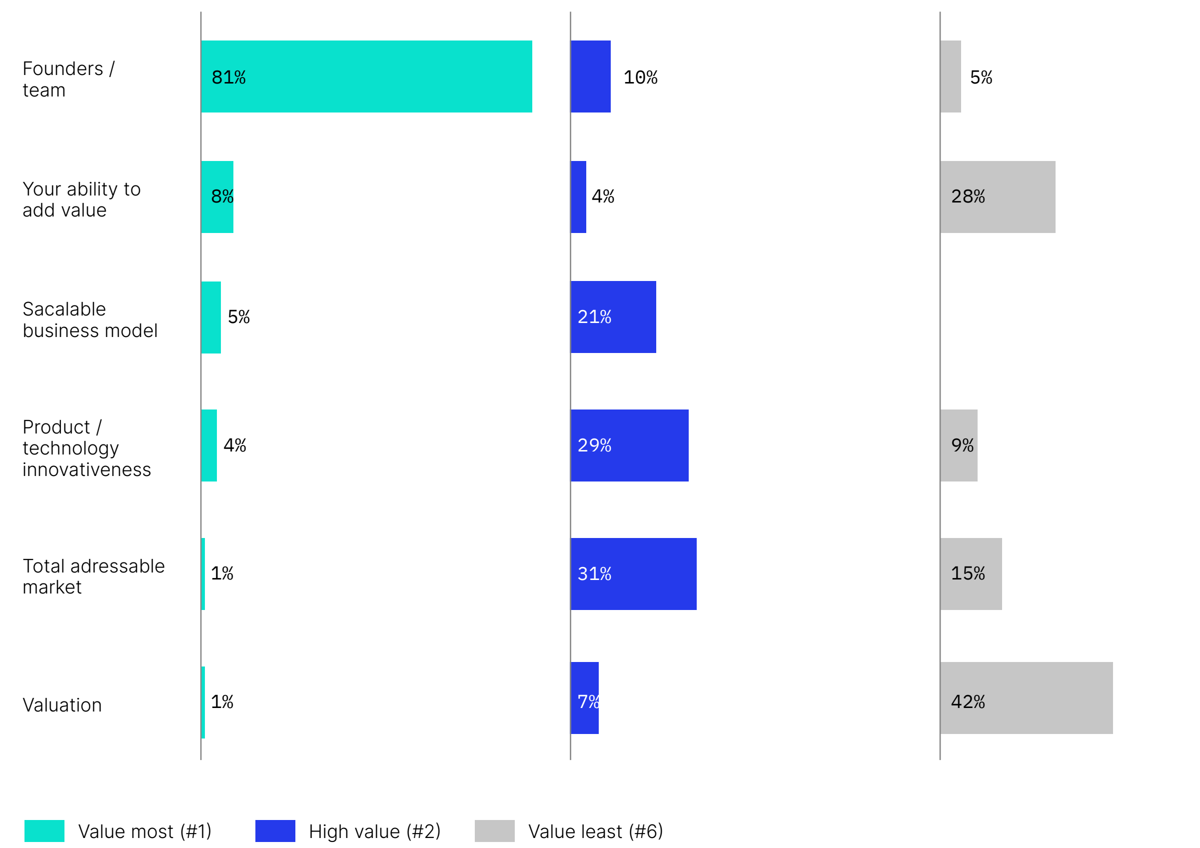
This emphasis makes sense. Although perhaps perceived differently by popular opinion, VC as an asset class is different from other investment classes: it is early stage and high risk by nature, and there is a lack of financial data. In light of this, it makes sense that team factors significantly outweigh business factors as business factors can be changed more easily (if need be); exchanging the founding team could prove more challenging.

Nevertheless, it's worth stressing that all of these sets of factors are deemed to be important by respondents: ignoring all business factors entirely to focus on the founding team might not be wise. There is a balance to be found between both.

81% of survery respondents ranked the founding team as the most important factor.

Figure 6 Decisive factors influencing the investment decision

What are the most important factors when deciding whether to invest? (Ranking, n=77)



At the other end of the importance spectrum, we can observe a pragmatic attitude by VCs towards valuation and the ability to add value: both are found to be the categories that the VCs considered to be the least important.

The relatively low importance of valuation makes some sense in the context of the early stage bias in the data sample and an increasingly hot VC environment in the region; it appears that for VCs it is crucial to win attractive deals without looking too much at price or allocation. **This seems to indicate a more founder friendly market environment than several years prior, when the negotiation leverage was clearly on the side of the funds. 2021, the year of our study, was a bull market for VC investment globally, and even more so in the LatAm region. It will be interesting to see how this evolves in 2022 with a more adverse fundraising environment.**

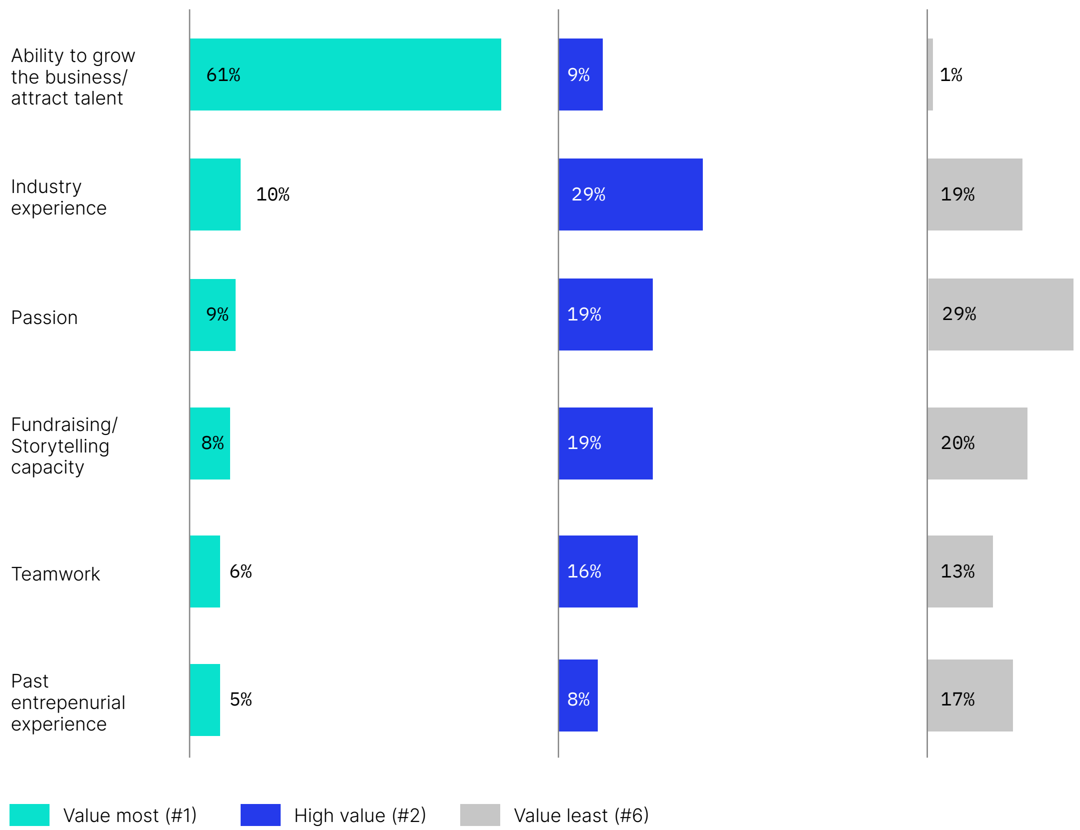
The ranking of the ability to add value as one of the least valued attributes surprised us. Owing to its increasing abundance, capital is increasingly a commodity in the LatAm ecosystem. As such, we would have expected the ability to add value to take on greater importance as emphasis shifts towards the other ways in which VCs can bring value to their portfolio companies. Adding value is a crucial but controversial topic of VC which is hotly debated amongst investors and entrepreneurs alike, and this is reflected in our survey:

it's simultaneously ranked as the second most important factor and the second least important factor by respondents in Figure 6. We will examine it more closely in section 4 (our section on adding value).

Given the overwhelming emphasis that LatAm VC's place on the founding team when making an investment decision (as presented in figure 6), we asked a follow up question to understand the qualities that VCs consider to define **a winning team** (figure 7).

Figure 7 Crucial qualities of the founding team

Which qualities are the most important in founders/ team? (Ranking, n=77)



The ability to grow the business/attract talent is ranked as the most important factor by a significant margin (61% of respondents), followed by industry experience (only 10.4% of respondents). As such, there seems to be a consensus among respondents that the ability to grow the business (and attract talent) is the most crucial for the success of the business[9].

However, we would like to emphasize that this is a subjective quality that is difficult to break down; it is certainly not measurable. By contrast, industry and past entrepreneurial experience is something that either you have or you don't have. The ability to grow a business that is often in its early stages is a lot more challenging to judge.

9 Interestingly this is very much in line with the US data sample, no major differences were found in the order of qualities.

We did not ask for the pedigree of people's educational background in the study, nor did we ask whether they had previous and successful experience as an operator. However, these are commonly mentioned as signals that can play a crucial role in evaluating the savviness and acumen of a founder. A possible reason for the apparent importance of these factors could be that certain founder profiles and backgrounds make the founder's ability to grow the business and attract talent seem more credible in the absence of any coherent data.

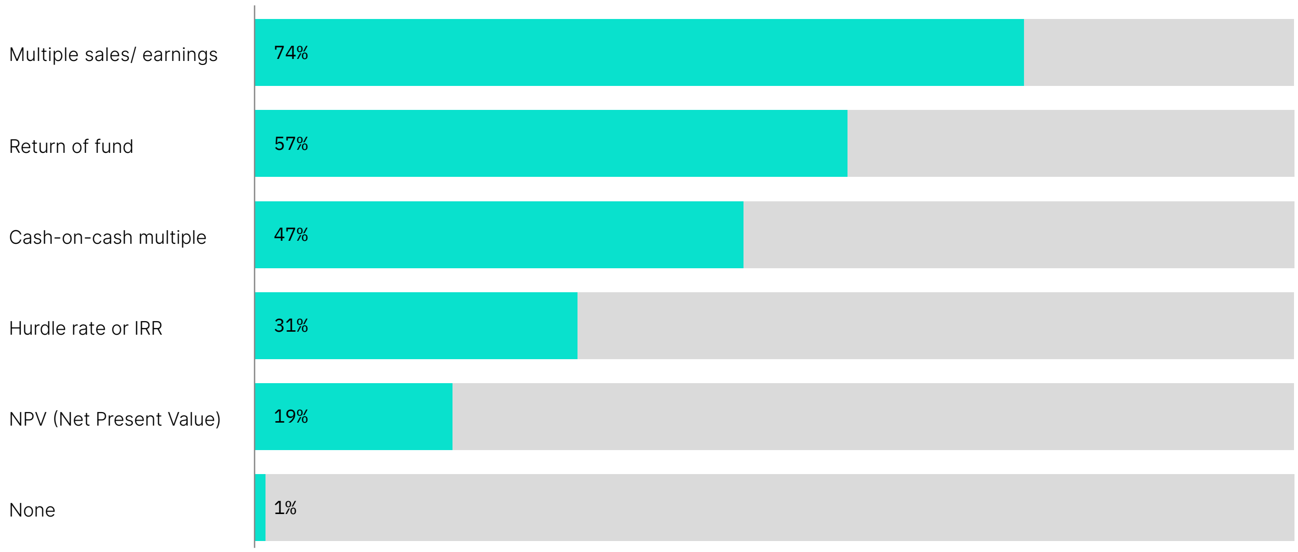
Looking at the other qualities ranked as important, it's worth highlighting the fact that past entrepreneurial experience ranks last. We would have expected this item to be ranked higher (as seen in the US study). It seems that to the VCs in our data sample it is not as crucial to have been a former entrepreneur, but rather to have experience in the industry, specific scientific/ technology knowledge, passion for the project and a high capacity to build qualified motivated teams.

This makes sense in the LatAm context, assuming that most startups in the region focus on incremental innovation in legacy industries such as Finance and commerce, where pior industry experience and insider knowledge can prove extremely valuable to leapfrog and innovate. Nevertheless, we cannot ignore the prominence of mafias such as former Rappi operators branching out into launching their own companies.

When we specifically asked for financial factors, respondents gave the following answers:

Figure 8 Financial Metrics for deal analysis

Which financial metrics, if any, do you use to analyze investments? (Multiple choice, n=68)



It seems that multiple of sales or earnings is the most popular financial metric used by funds to analyze investments, followed by return on funds. When we asked Adolfo Blasco, Principal at Nazca, about this distribution he stated that an early-stage fund looks for each investment to have the potential to return the entire fund. This reflects the extreme nature of the venture asset class, where most returns are generated by a few investments. This heavy skew towards a few investments means that funds also have to factor in follow-on investments when analyzing their first investment in a company, and as such they also have to project the future capital needs for their portfolio companies. This allows them to double-down on their successful investments that might return the fund.

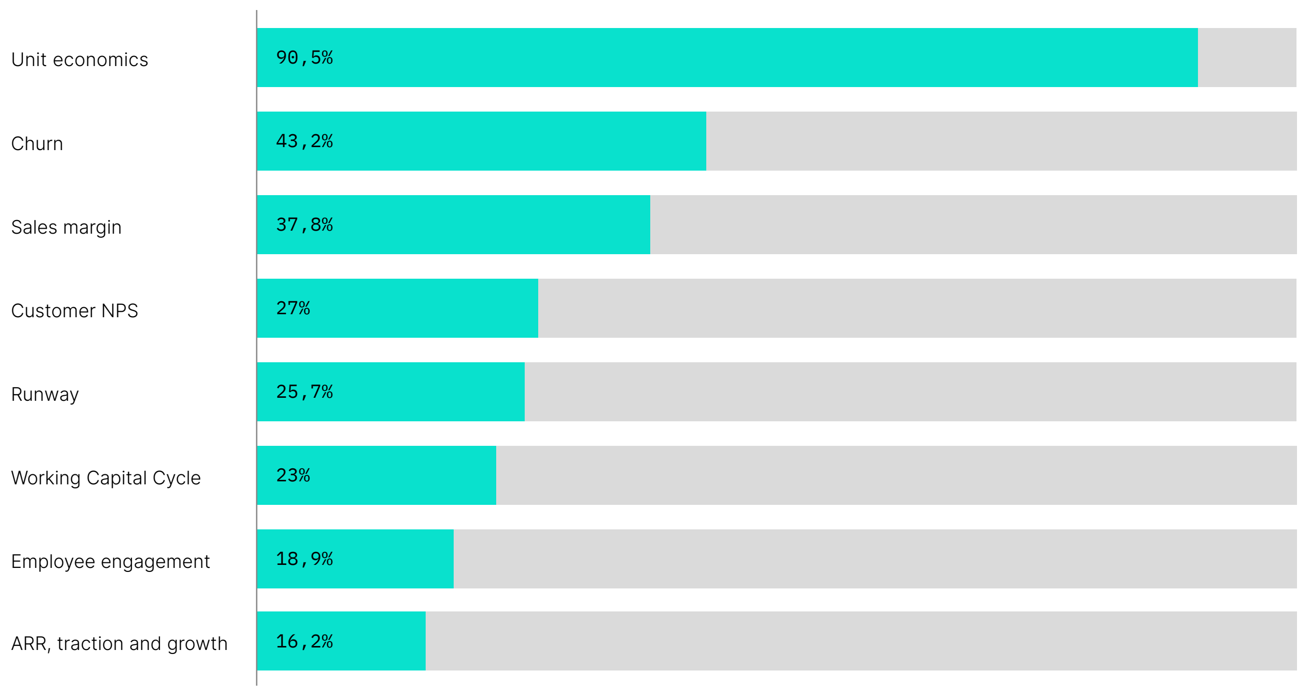
Interestingly, the financial metrics that VCs use to analyze potential investments have a notable interplay with the metrics that LPs use when analyzing a potential investment in a particular VC (which we analyze when looking at figure 24). The high emphasis on cash-on-cash multiples and IRR by VCs finds a parallel in the similarly high emphasis on Multiple on Invested Capital (MOIC) and IRR by LPs. This all points towards the asset class's emphasis on absolute returns (compensated for time in the case of IRR), which is covered in more detail in the section on Deal Outcomes.

Finally, Net Present Value is a financial metric more commonly used by Private Equity or later stage funds to analyze investment opportunities. Multiple of Sales / earnings is another financial metric which places more emphasis on the current earnings of a company, and is especially common practice in our early stage sample. The caveat here is that if one invests in a company pre-revenue (commonly in the seed or pre-seed stage) this metric does not yet exist.

In any case, Venture Capital is a high risk asset class and it is difficult to project the future performance of an investment. Nevertheless, the use of certain proxies and financial metrics can help narrow down and frame the investment decision, as well as help guide the fund through the process of analyzing a deal.

Figure 9 Performance metrics for deal analysis

Which are the three most important metrics you take into account when deciding to invest? (Multiple choice, n=68)



When asked which 3 performance metrics they consider to be the most important, the vast majority of VCs considered Unit Economics (90.5%) Churn (43.2%) and Sales margin (37.8%) the most important metrics.

This is not surprising as conventional wisdom holds unit economics as crucial components of early stage and Series-A investing, given that they are a key variable indicating the possible future profitability of the business.

When comparing our segmentation of unicorn investors to non-unicorn investors, sales margin takes a more prominent role as the second most popular metric (22.4%) for unicorn investors, less popular than unit economics (32.7%) but more popular than churn (18.4%).

Overall we would like to highlight that for the investment decision many variables are taken into account: there is not one single dominant factor. Nevertheless, the founding team clearly plays a crucial role out of the qualitative factors, and unit economics are the most important performance metrics.

For entrepreneurs this provides a valuable insight into which aspects to emphasize in the pitch to investors and to VCs it provides them with an opportunity for benchmarking and differentiation. There might be VCs that are more contrarian than the conventional wisdom, who emphasize other metrics in their investment decisions. Nevertheless, given the clear weighting of certain factors and metrics in our results, a consensus might well exist amongst the respondents to our study about which factors are critical when evaluating a deal.

Unit Economics play an especially prominent role in early stage and Series-A investing, because they can be indicative of future performance

EXPERT COLUMN

"We have learned that backing very strong founders and supporting them on building something huge is what is going to continue to have us perform above benchmark"

At MAYA, we look for 3 things: i) An extraordinary team, ii) Solving real large pains, and iii) Building solutions 10x better than the alternatives, with sustainable moats. Since we lead the first venture capital round, 'team' plays an even more important role in our decision-making process (in many cases the product is very incipient or they even pivot to a different market). A great founding team is crucial for the company's success.

"A combination of entrepreneurial experience, ambition and talent attraction makes for a strong investment"

Team's background:

Founders with entrepreneurial experience have accelerated learning curves and this tends to de-risk certain investments. In specific, second-time founders (those who have launched, grown and exited businesses) have already had many learnings that are applicable in new ventures, thereby giving them an edge.

Ambition and Motivation:

We seek founders who are impatient, passionate (or non-conformist), and rational optimists. We also seek long-term values alignment.

Capacity to attract talent and capital:

Founders will not build legacies on their own. In fact, they will only be as strong as the team they can attract.

"Great founders are talent-magnets"

Nobody will build anything alone, so sourcing, winning and developing a strong team is crucial for any business to succeed. Maya runs several reference checks to understand each founder's ability as a leader and her capacity to attract top talent. In fact, the first hires are a strong indicator of that.

Their team spends a lot of time understanding the market (size, dynamics, growth, competitors, benchmarks) and the pain itself (is the problem real and urgent? are people willing to pay for it?). Benchmarks do give some insights, but it is crucial that we put that into context and understand the local reality on the market we are investing in.

MONICA SAGGIORO

Partner at Maya Capital

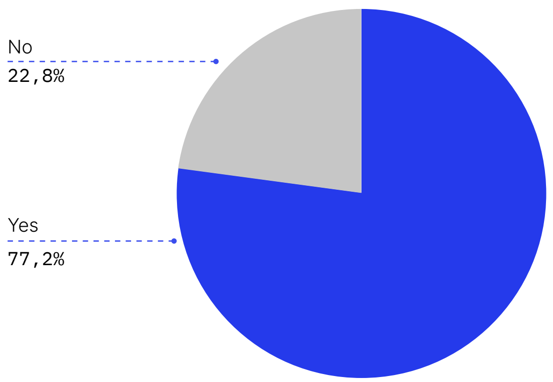
2.1 ESG criteria

Environment, Social and Governance (ESG) criteria is an issue that has found its way into the spotlight over the past few years - notably when Blackrock, the largest asset manager globally, announced it in 2020 as a crucial factor in its investment strategy.[10] We were curious to see how influential ESG factors are in the investment process of LatAms VCs.

Our survey indicates that the vast majority of LatAm's VCs - approximately 8 out of every 10 - take ESG and diversity criteria into account when making investments. For investors who were originally founders it's slightly more important (86%) to take these criteria into account than it is for investors from non-founder backgrounds (75%).

Figure 10 How often LatAm's VCs take diversity and ESG criteria into account

Do you take diversity criteria and ESG into account when making investment decision? (n=79)



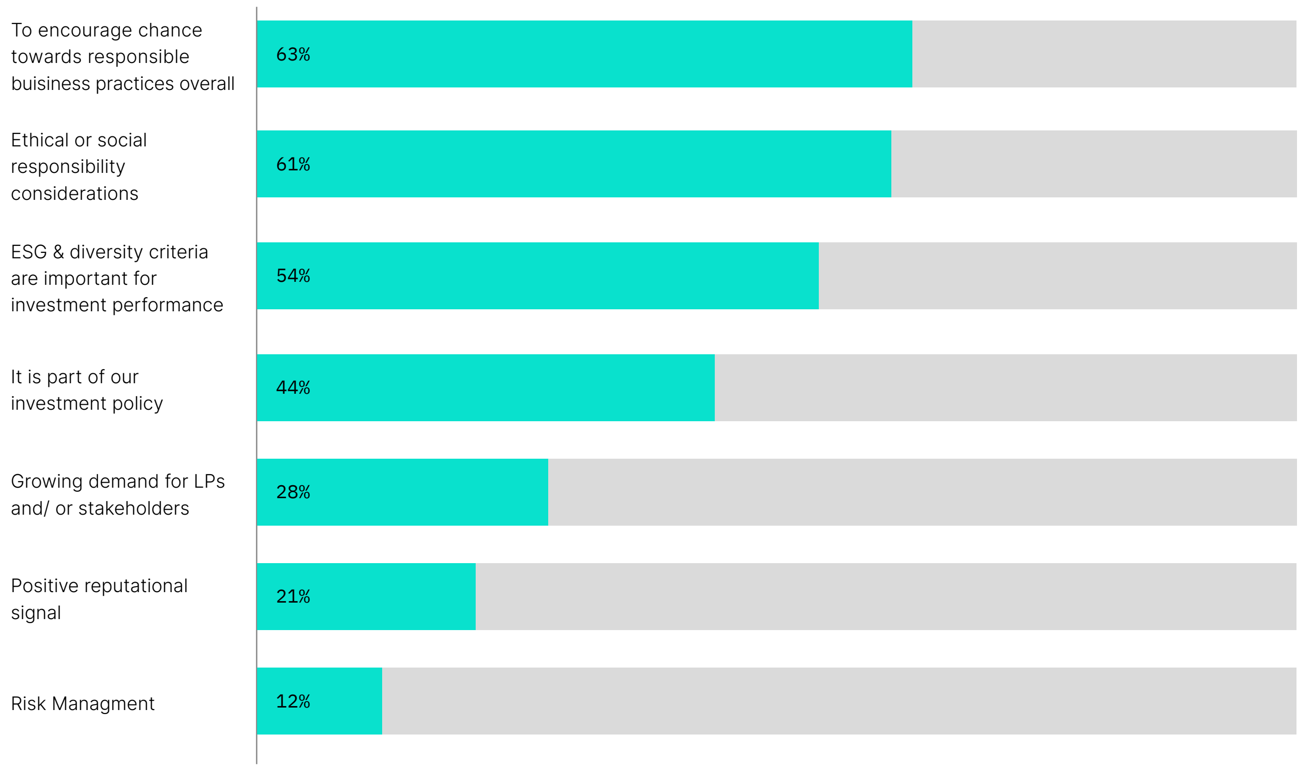
For VCs, responsible business practices and ethical considerations are the most mentioned motivations for ESG engagement (chosen by 63% and 61% of respondents respectively, figure 11). Right behind those is the assertion that ESG criteria are important for investment performance, accepted by more than half of investors (54%). Whilst these are all important motivations, in fact only 44% of VCs have ESG criteria as part of their investment policy, which means that many of these moves towards ESG are not systematic.

Currently, there is not enough institutional leverage in the industry to structure and enable an ESG integration into the core existing investment and risk management processes. Indeed, just 3 in 10 VCs declare a growing demand from LPs and/or stakeholders, which is needed for integration to happen. This is curious considering the push by institutional investors such as BlackRock.

10 https://www.blackrock.com/corporate/investor-relations/2020-larry-fink-ceo-letter

Figure 11 Motivation for using ESG criteria

What are your motives for considering ESG & Diversity when making investment decisions? (Multiple choice, n=57)



In an ideal world we would prefer not to have to distinguish between impact-driven VCs and for-profit VCs, and we can observe certain propensity in the overall investment environment globally which indicates that the two sets of metrics are becoming more closely integrated.

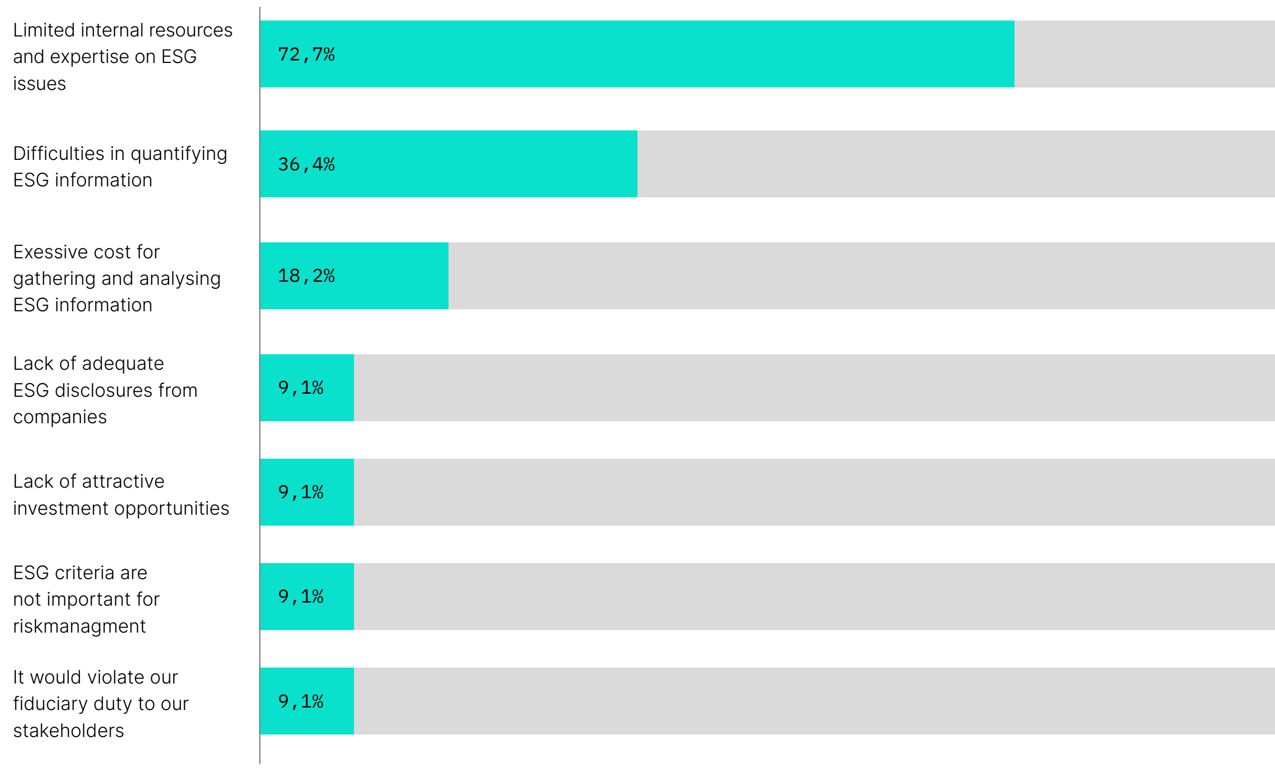
The principal reasons that VCs which do not use ESG criteria give for not using them are limited internal resources and expertise on ESG issues (72,7%) and difficulties in quantifying ESG information (36,4%), as can be seen in Figure 12.

Both of these make reference to the lack of availability of resources in the evaluation process, reinforcing the idea that there isn't yet enough institutional leverage in the industry to enable an ESG integration.

Only 3 in 10 VCs declare a growing demand from LPs and stakeholders for more ESG criteria - This is curious considering the push by institutional investors such as Blackrock.

Figure 12 Movitation for not using ESG criteria

Why do you not use ESG information when making investment decisions? (Multiple choice, n=11)



It will be interesting to see how this matter evolves in the future assuming that ESG factors increase in importance and the lines between impact and profit become blurrier.

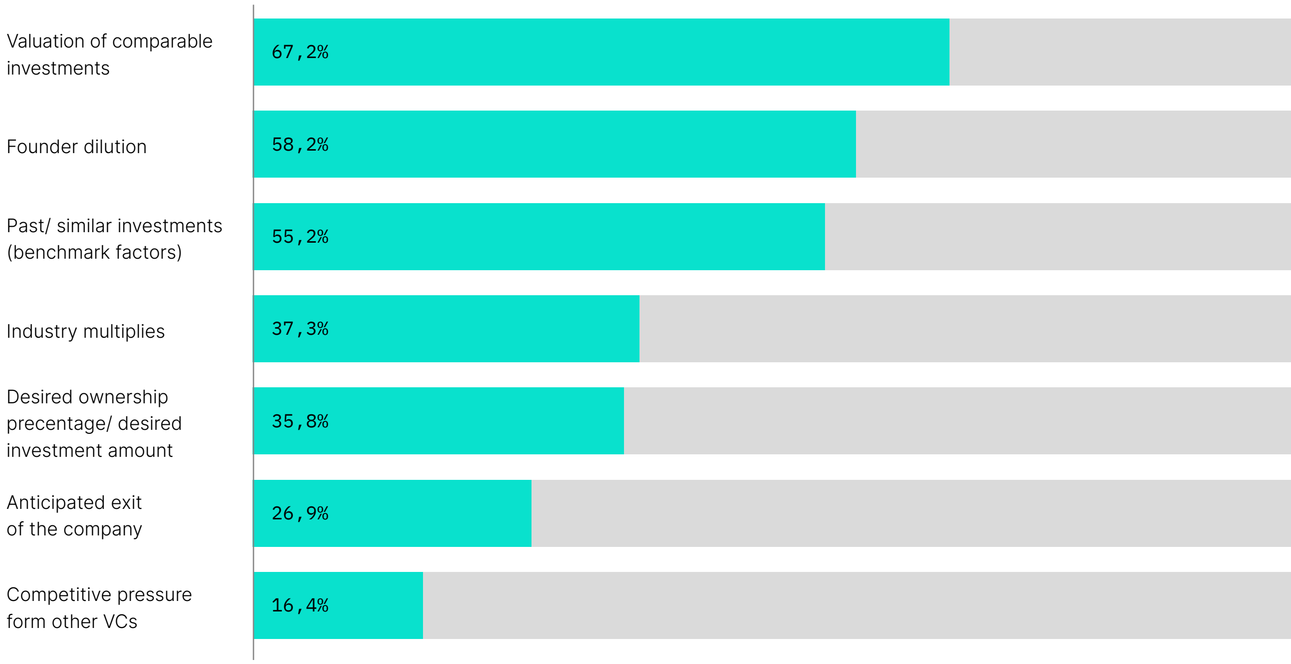
Deal Making

↪Dealmaking is certainly one of the most exciting parts of the VC investment process, marking an important milestone in the VC-Founder relationship: a prospect is converted into a partner and the two negotiate the terms of their agreement. This is a competitive process on both ends, as each side needs to persuade the other that they are the right match. We asked LatAm VCs what characteristics are, in their opinion, more valued by founders when deciding to select a VC to team up with.

One of the key milestones in the investment decision making process is determining the valuation of the company: it determines how much capital founders get for their equity, and how much equity investors get for their capital.

Figure 13 Most important factors when deciding what valuation to offer a company

Which are the most important factors when deciding what valuation to offer a company? (Multiple choice, n=67)



As can be seen in figure 13, the most important factor in determining a valuation is the valuation of comparable investments (chosen by 67.2% of respondents), and the 3rd most widely chosen is past / similar investments (benchmark factors) (55.2%). Both illustrate an outward looking perspective of VCs, since they reach a valuation for the company under review by comparing it to external examples, whether that's to their own prior investments or to comparable investments made by other companies.

The second most widely chosen factor was founder dilution (58.2%), which stands out as a positive indicator for the increased founder friendliness of the LatAm ecosystem: demanding too big a share of an entrepreneur's company might upset the possibilities of future funding for that entrepreneur, and therefore the prospect of a successful investment for the investor.

Comparison with the US study reveals that US funds have a greater emphasis on the desired ownership percentage. In other words, US investors appear to be more rigid with their target allocation, while LatAm VCs appear to have a more pragmatic approach to ownership.[11]

However, the most significant difference between the 2 data samples is without a doubt the focus on the anticipated exit of the company (ranked first in the US data sample, but second to last in the LatAm data sample). This implies that the US ecosystem has a more forward looking view, where focus lies on the eventual outcome of the investment; in contrast, the LatAm data sample tends to look at present or past valuations as anchors for the investment decision.

This can be explained by the VC ecosystem in the US being significantly more mature with a long lasting track record of successful exits. Exit activity in the LatAm ecosystem has certainly improved over the last years with multiple paths to liquidity, be it via a public offering, SPACs or M&A deals. As such, we assume that LatAm's emphasis on the anticipated exit will continue to evolve as the industry establishes a stable track record and can more reliably look into the future and anticipate exits. If we repeated the study in another 5 years, we might well see anticipated exit ranked higher.

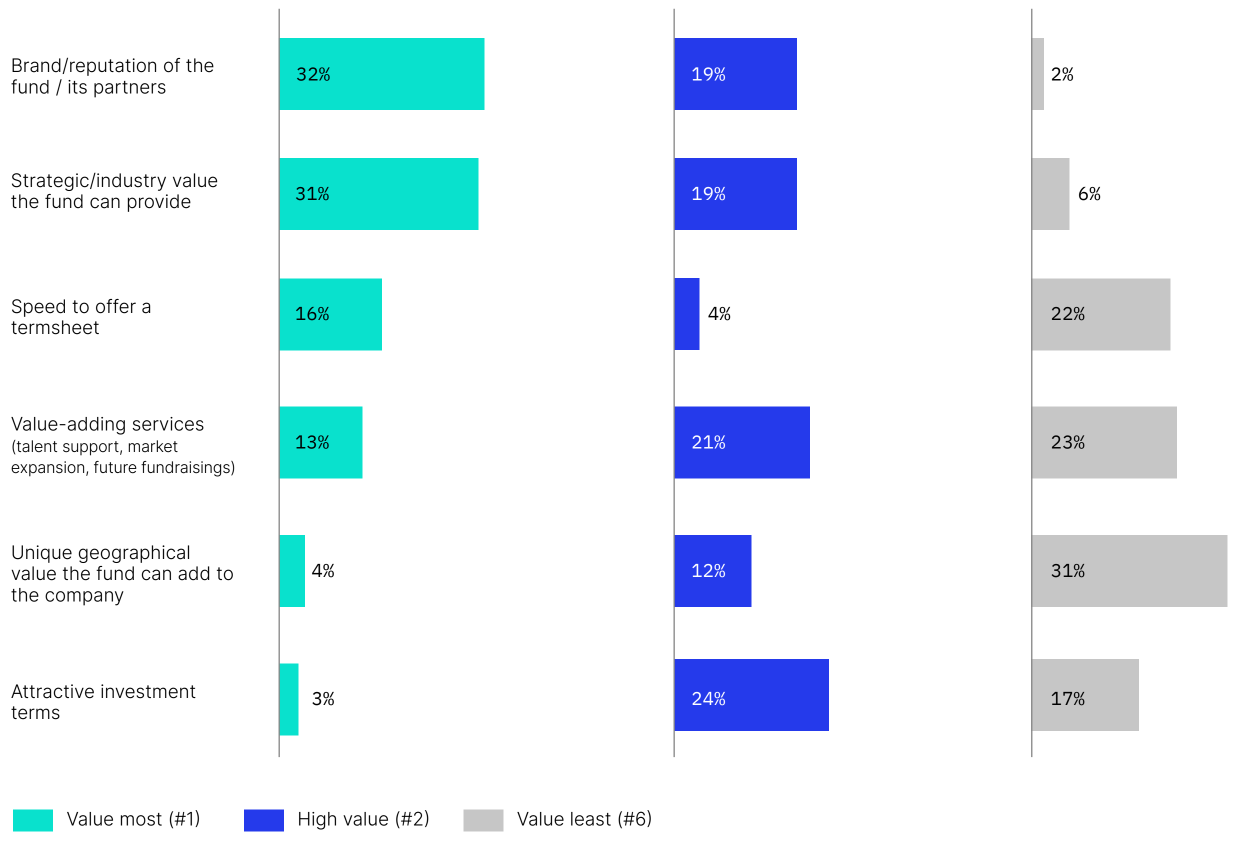
In any case, the VC asset class is more art than science in any ecosystem: both the US and LatAm ecosystems rely on proxies to determine their valuation, the difference seems to be that the US ecosystem can anticipate more accurately a future exit instead of having to rely on past investments or on comparable investments in the broader ecosystem. This is especially true in the early stages, where there are limited metrics and financial indicators of the business.

Both US and LatAm VCs rely on proxies to determine valuations, the difference seems to be that the US investors can anticipate more accurately a future exit.

11 This could have been influenced by the fact that the LatAm survey has been undertaken in a bull market while the US survey took place in 2016 with a potentially different market environment.

Figure 14 What founders value the most when selecting a VC to partner with

In your opinion, what do founders value the most when selecting a VC to partner with in a competitive environment? (Ranking, n=68)



Moving beyond the factors involved in reaching a valuation we wanted to see what mattered the most to entrepreneurs when picking a VC to partner with. When we asked our data sample of VCs, they answered that entrepreneurs prioritize first and foremost the brand and reputation of the fund. In the VC industry, there are renowned VCs with which any entrepreneur would want to be associated due to their track record, prestige and the selectivity of their investments. Belonging to their portfolio is an endorsement of the founding team's ability to succeed, allowing the development of a potential next round of investment and access to a high-level support network.

Secondly, VCs perceive that entrepreneurs - with practically the same amount of preference - value the strategic or industry value the fund can bring to the table. This makes it clear that the value add component is considered important, which makes a lot of sense given the strategic needs that ventures have in their frantic race to scale. As such, VCs seem to think that the key things that they can offer entrepreneurs in a competitive environment are not only their reputation but also strategic support to help scale the business.

It's interesting to note here that VCs also perceive that entrepreneurs don't value the operational value-add (talent support, market support, future fundraising) that a fund can bring to the table as much.

It's also worth noting that the value-adding activities that VCs actually perform (figure 18) aligns with the above understanding of entrepreneur needs (figure 14). It would be interesting to compare this with the opinions of the entrepreneurs themselves, but unfortunately this is outside the scope of this study.

A final comparison can be made between what founders value when selecting a VC to what VCs value when selecting a founder. While founders value a VC's ability to add value (figure 14), VCs find the ability to add value a controversial issue when they analyze prospective investments: our data sample of VCs simultaneously ranked the ability to add value as the second most important factor and the second least important factor in an investment decision (figure 6). In any case, our study seems to indicate that adding value is a more important issue for founders than it is for VCs.

The speed factor, an item that certainly has caused some noise in the past months and in 2021 in particular - with cross-over VCs becoming more active in the region and the environment becoming more competitive overall - is ranked 3rd, above both operational value-add and the geographical value the fund can add to the company. To the research team it comes as a surprise that geographical value is not perceived as a tangible added value. From our experience working with entrepreneurs at Endeavor, entrepreneurs repeatedly aim for VCs with strong local networks and prestige as they aim to expand into larger markets in the region, such as Mexico and Brazil. Having a strong local partner on the ground can prove indispensable.

However, the responding VCs might argue that this added-value will increasingly become more common-nature as VCs invest increasingly across the whole region and companies get more accustomed to scaling across borders.

When comparing the overall data with our segmentation variables, we could observe a difference by **former entrepreneurs turned funders: former entrepreneurs perceive that founders put greater emphasis on value adding services,** significantly more than respondents from other professional backgrounds. This is fairly illuminating and confirms at least to a certain degree our suspicion that **entrepreneurial VCs put greater emphasis on the adding value component.** Certainly, we cannot say whether in the final delivery this is actually the case, but an initial emphasis is evident by a high margin. Also, we can observe a slight difference in the importance of brand and reputation of the partners of the firm, as **former entrepreneurs perceive that founders value brand and reputation more.**

When comparing the overall data with our other segmentation variable, we could identify that there does not appear to be a significant difference between funds with unicorns in their portfolio and those without.

All in all, we can definitely say that for founders making a decision about which fund to team up with, the decisive factors are likely to be more nuanced: it's an interplay of all of these factors.

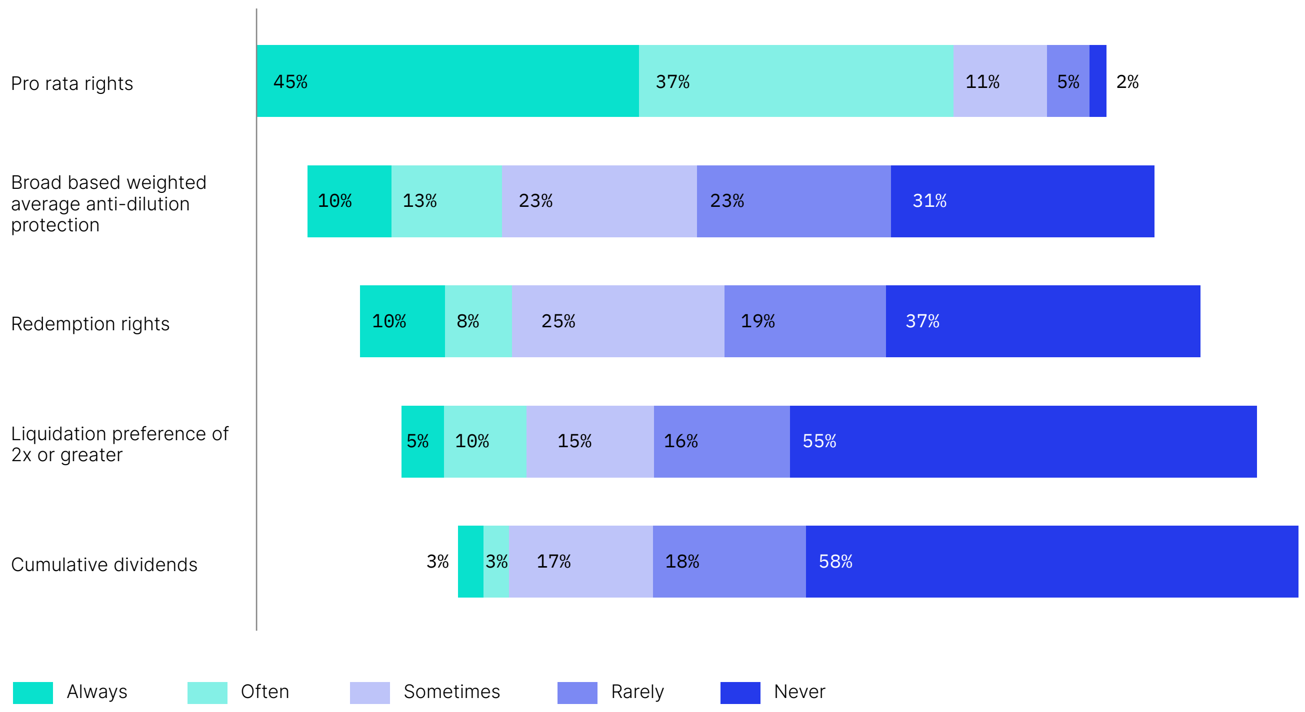
It is outside of the scope of this study, but there might well be other factors that are not measurable, for instance the personal fit and alignment in values between the founder and the investing partner who will eventually sit on the board of the company. **We should not forget that VC ultimately is a people business** - a fact that has appeared resoundingly throughout the findings of this study - and as such there are also soft factors at play shaping the investment decision.

3.1 Contractual features

Whilst valuation is perhaps the most important term in the deal-making process, there are plenty of other contractual features that have a big impact on the attractiveness of a deal - for VCs and entrepreneurs alike. These terms help VCs maintain some influence on the direction of the company, increase returns in the event of a not-quite-successful investment, and to be compensated in the event that a company loses value. Whilst some of these terms help create alignment between the VC and the entrepreneur and are thus good for both parties, often these are concessions that the entrepreneur would prefer not to make because they are at their own expense.

Figure 15 Frequency of use of contractual features

How frequently do you use the following contractual features on the investments that you make? (n=62)



We took an inside look into the most frequently used contractual features and stipulations that VCs use in their deals. Again it comes as no surprise that forward-looking features are the most frequently used features; given that venture is a bet on the future returns of a business, optimizing for that return potential is critical.

Pro-rata rights - a key term that ensures future access to financing rounds, and therefore the ability to double down on the entrepreneurs that successfully scale their company - is by a wide margin the most frequently used contractual feature. In our data sample 45% of LatAm VCs state that they always use this contractual feature and another 37% state that they use it often. Doubling down on investments that are performing well is crucial to optimize overall portfolio performance because of the power law dynamic. This means that only a few investments drive top level returns, and as such investors aim to maximize their ownership in these investments.

The other contractual features are more nuanced in their use. Broad based weighted average, a classic mechanism for anti-dilution, is always used by 10% of respondents and often by another 13%. However, we can already see that the percentage of the "never used" category increases significantly, with 31% of the data sample never making use of this provision. This becomes particularly evident in the least used features: for example, liquidation preference of 2x or greater (a clearly pro-investor feature) is never used by a majority of investors in our data sample.

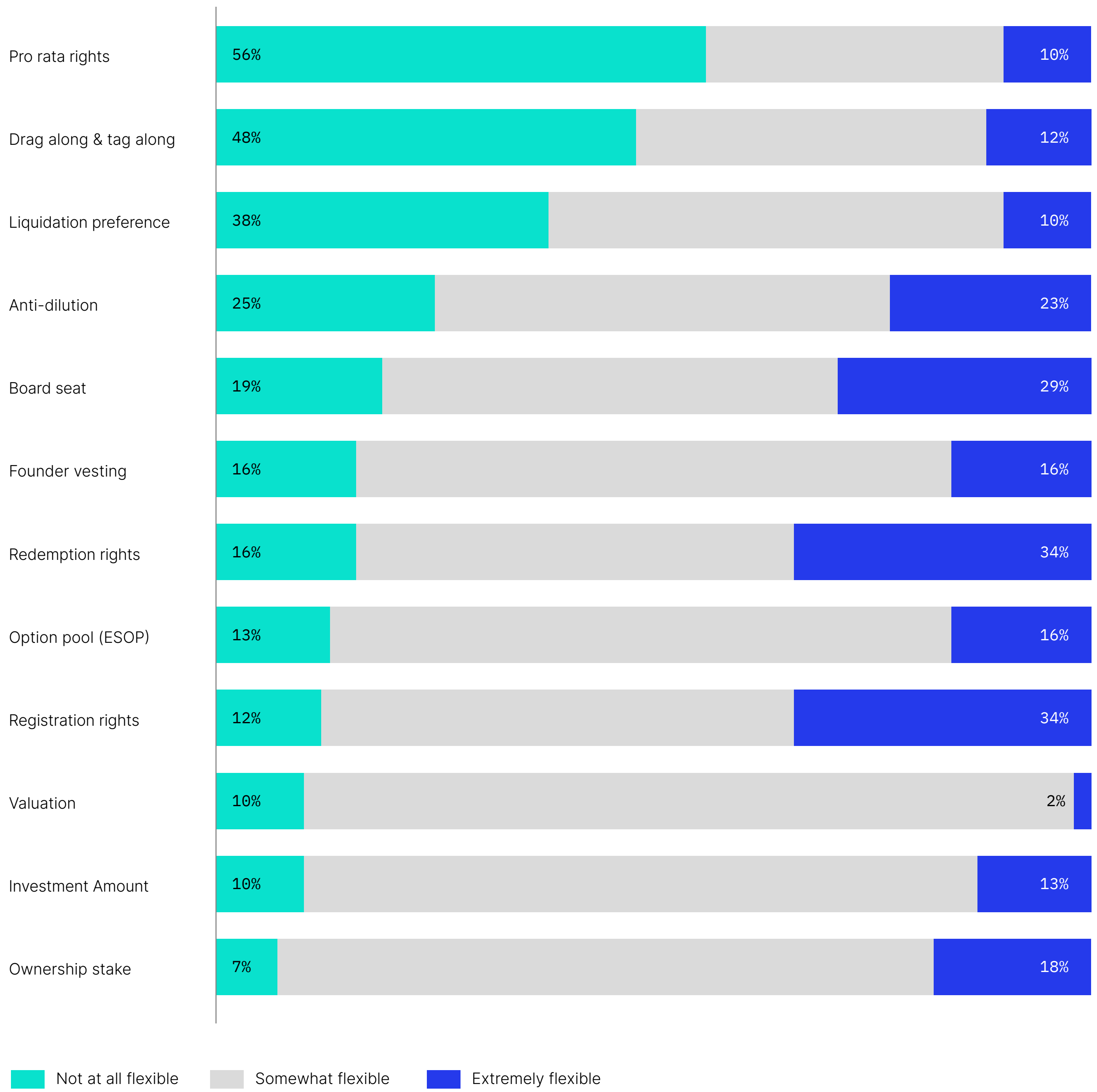
Comparing this picture to the US data sample, the similarities are fairly striking. The similar emphasis on pro-rata rights especially suggests that both LatAm VCs and US VCs are equally cognizant of the power law dynamics that drive top quartile returns.

The only differences between the LatAm and US studies is a more popular use of cumulative dividends in the LatAm sample and of Redemption rights in the US sample. The higher use of Redemption rights in the US - the right to force a company buy-back your shares after a period of time if no attractive exit opportunities are realized - indicates that for US VCs ensuring liquidity from investments seems to be a higher priority. It also indicates a stronger later stage focus and potentially also a more mature venture ecosystem: more later stage investors probably means more later stage companies worth investing in.

Pro-rata rights is by a wide margin the most frequently used contractual feature and the provision that VCs are least flexible on. It's a way of ensuring that investors can access follow-on investments.

Figure 16 Flexibility of use of contractual features

What term sheet items are you flexible on when negotiating a new investment? (n=62)



When asking Dan Green, Partner at Gunderson Dettmer, about the higher use of cumulative dividends in LatAm, his interpretation is that it might stem from the influence of PE investing practices. He expects the use of this term to converge between the two ecosystems in the years to come, and LatAm's percentage to go down further.

When we move beyond frequency of use to look at how flexible VCs are with certain contractual features, we can see that **pro-rata rights are by a wide margin not only the most frequently used feature but also the feature that VCs are the least flexible on.**

It's particularly interesting to look at the contractual features that LatAm VCs are the least inflexible on (where fewest respondents selected "not at all flexible"). Hard factors such as valuation, investment amount and ownership stake appear not to be as important, showing the pragmatic nature of our survey respondents and a good basis for negotiation between the two parties. This further supports the notion that **the VC ecosystem in the region finds itself in an upswing and in a founder friendly environment.** However, two other contractual features raise attention: founder vesting and ESOPS appear not to be as important to VCs.

When looking at the other end of the spectrum, reviewing the contractual features that VC firms in LatAm are extremely flexible on, **Registration rights, redemption rights and board seats are the 3 most prominent features.** This again indicates the early stage focus of the survey respondents: for example, registration rights is an important feature when it comes to public offerings and as such is considered less important to early stage investors. We sat down with Dan Green of Gunderson Dettmer to dissect this further and get his take on the survey findings.

> "In a less founder friendly enviroment, we might see the pedulum shift more towards the investor. We might also be faced with more aggressive terms along the lines of liquidation preferences and anti-dilution"

DAN GREEN

EXPERT COLUMN

"Venture is a success driven game, you need pro-rata rights to make this work so you can maintain your ownership in a company. I am not surprised that pro-rata is amongst the most frequently used terms." - Don't expect an investor to simply give up these rights.

Dan Green on the convergence of contractual features to global standards in LatAm

Some of the features are moving towards global trends of venture capital and this indicates that the market has started to coalesce to "standard venture capital terms": cumulative dividends, 2x liquidation preferences and the like are very rare in venture deals. In a less founder friendly environment, we might see the pendulum shift a little bit more towards the investor and we might see more of these terms. For instance, if we were to do this survey again at the end of 2022 - assuming that we are in correction territory then.

When the tide shifts away from a founder friendly environment...

Broad based weighted average dilution is something that might have the most impact on companies in the next 10-12 months if we go into a down or flat cycle. When it becomes harder to raise rounds, valuations shift downwards. This will first be felt in later stage rounds, and later trickle into the earlier rounds. We aren't yet seeing this in the early stages, however this might change if the dynamic lasts longer.

"You are going to have these terms being implemented in down rounds, if they happen, and this is where anti-dilution terms play a particularly important role."

"There is a fluid market for deals happening"

If you were to ask entrepreneurs to rank which items they are flexible on, the ranking would actually look quite different; founders care a lot about board seats for instance. Having a good degree of flexibility on the board seat and participation side suggests that you have a willingness to agree and converge on terms. This degree of flexibility is a positive sign, indicating space for negotiation between founder and investor, which in turn creates a fertile investment environment.

DAN GREEN

Partner & Co-Head of Latin America Practice at Gunderson Dettmer.

GUNDERSON DETTMER

To conclude on the chapter of dealmaking and closing, we wanted to take a step back and look again at the overall funnel.

1 **Dealflow Origination**

2 **Deal analysis**

3 **Deal making**

4 **Adding value**

5 **Deal outcomes**

On average, the VCs of our LatAm data sample state that they spend

60 HOURS

in due diligence for a deal and require **39 DAYS** until they offer a term-sheet, concluding the investment process.

This number is significantly lower compared to the US data sample, where VCs stated that they spend on average

188 HOURS

almost double, on due diligence processes **83 DAYS** until they offer a term sheet.

Another important component in the VCs decision making process is including reference calls to supplement the analysis. Here we can observe another significant distinction between the US data sample, **WHERE VCS ON AVERAGE INQUIRE 10 REFERENCES PER INVESTMENT AND LATAM VC ON AVERAGE LOOK INTO 6 REFERENCES.**

We do not want to overstate these significant differences in 2 crucial components of the VCs decision making process, and by no means would argue that US VCs are more diligent than LatAm VCs: **more is not always better.** We leave this interpretation to the reader of the study.

For VCs reviewing their processes this certainly provides valuable insights "... into where they stand, and for entrepreneurs it gives an estimate of the minimum time requirement a VC has when entering into due diligence with a company. It will be interesting to see how this dynamic evolves over time. **2021 has certainly been an incredibly dynamic year for investing in VC in the region, and as such speed most certainly was an influential factor.**

Adding value to the portfolio

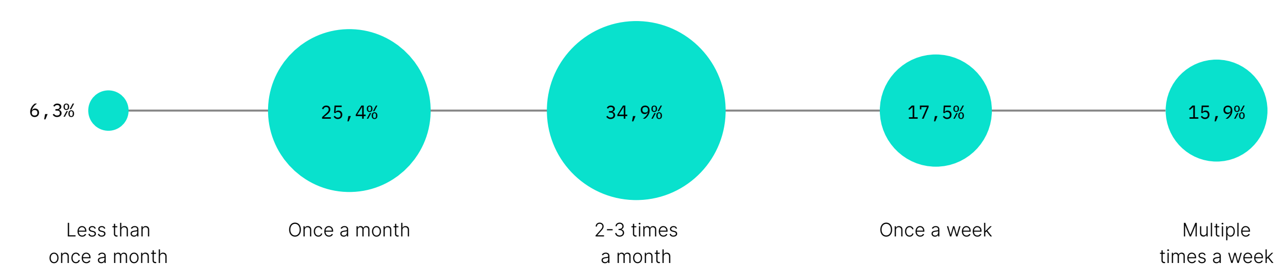
↪There is an ongoing debate about how VCs can best add value - or whether they even add any value at all. Our study is not focused on breaking down best practices. Instead, we want to look at what value-adding activities LatAm's VCs offer their portfolio companies, and how frequently they undertake them.

To begin, the frequency of touchpoints between VC and entrepreneurs seems to be quite balanced between all of the variables.

On average, VCs in LatAm are in contact with their entrepreneurs several times a month.

Figure 17 Frequency of interaction with founders

In the first six monthsafter making an investment, how frequently do you interact substantially with the founders? (n=63)



These touchpoints are certainly of a dynamic nature: at some periods and stages of the company an individual investor might be more involved than in others. At Endeavor we recognise that adding value is of a fluid nature and that as a company matures different needs come into play. Usually, the founding team aims to raise financing from a different kind of investor which is further down in the value chain and has a different value proposition.

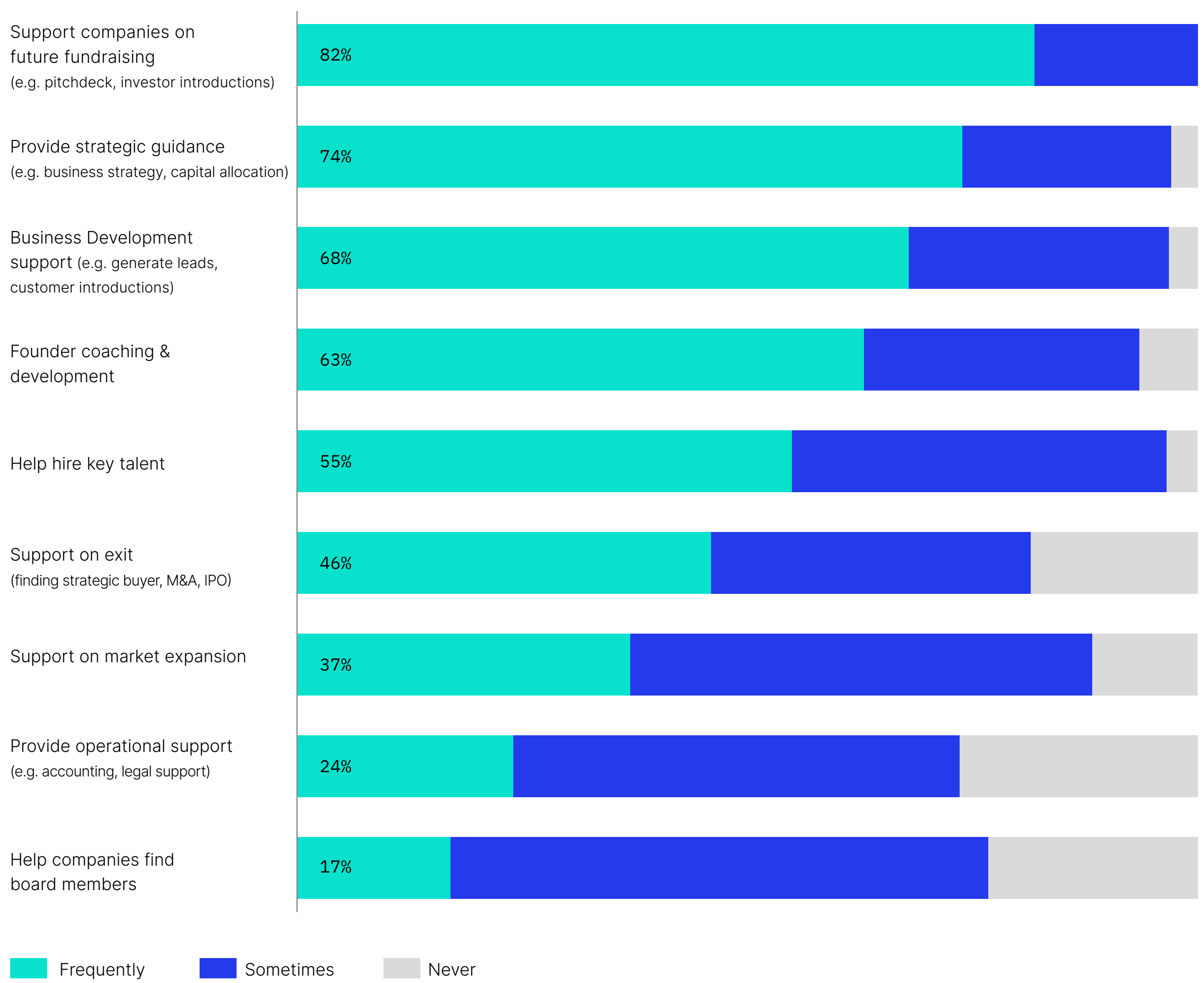
Comparing this data with the US data sample we can observe that US VCs appear to be more high-touch than their LatAm counterparts. A significant portion of US VCs are in touch with their portfolio companies once a week or more.

We can infer from this that LatAm VCs are smaller in team size and resources, which explains the fewer touchpoints on average. In any case, the number of touchpoints is not indicative of the value they create, and as such we now proceed to the most frequent value adding activities.

For our LatAm data sample, **the most popular value adding activity appears to be supporting companies with future fundraisings, which is certainly in the best interest of an early stage VC.** Ranked after this is strategic guidance for building the business and allocating capital, and after that is business development support (e.g. lead generation and customer introductions).

Figure 18 Frequency of added value activities performed by LatAm VC respondents

How frequently do you undertake the following value adding activites for the companies in which you have invested? (n=63)



Considering that Endeavor is an entrepreneur-support organization, we have extensive experience working with founders on their challenges, especially at the scale-up stage. In the past, the majority of the time of our global Growth team was focused on support with future fundraisings, and in a global context this is actually still more than 50% of their time. However, similar to the platform approach of VCs, we have started to broaden our services along the lines of access to markets and access to talent, two activities which are highly demanded by entrepreneurs.

Given the early nature of the VC ecosystem and their comparatively smaller sized teams, VCs in LatAm have to prioritize where they allocate funds and resources. The platform model made especially popular by funds such as Andreessen Horowitz in the past few years has turned the VC model around; where VCs were previously very low touch and strategy oriented, this new model makes value adding activities increasingly multi-dimensional and operational. However, this requires a significant overhead, and early stage VCs with smaller management fees are not equipped for this. As such, we are not surprised to observe a predominance of more traditional VC value adding activities amongst our LatAm data sample.

We certainly see potential for individual funds to differentiate themselves from the crowd when it comes to adding value. Access to talent currently plays an important role in startup success. This is in no small part due to current macroeconomic trends, such as the global war for talent and an increasingly more competitive startup environment in the region. Support for market expansion is certainly an activity that can be explored more by VCs. The LatAm region is not as economically integrated as others, yet as a whole it possesses a massive regional market potential. Startups - especially those from smaller markets - expand across borders to reach crucial scale, and they often rely on VCs as door-openers.

When comparing the value-adding activities of the LatAm VC data sample to the US VCs we can observe interesting differences. The highest ranked services - such as providing strategic guidance on business strategy - are heavily commoditised in the US, as almost all the VCs in that data sample (87%) provide this kind of support. Moving onto some of the less frequently performed value-adding activities, it appears that US VC are more hands-on in providing operational support (65% vs 24% in LatAm) and in helping to find board members (58% vs 17% in LatAm).

Generally speaking, we still see a lot of space for differentiation along value-adding activities provided by LatAm investors. **As the asset class further matures we expect to see more platform VCs evolve that can provide an ample breadth and depth of service offerings.** Nevertheless, we predict that there will always be space for more hands-off capital providers. At the end of the day, it's the entrepreneurs that shape the playing field and different types of entrepreneurs look for different types of VCs. In our opinion, there is no one size fits all approach in venture and emerging fund managers will do well to find their secret sauce to add to the mix.

EXPERT COLUMN

“We are not working with averages, we look at each company individually.”

At Kaszek we don't generalize when thinking about what value to bring to companies. We focus on each company's needs and double click there. We don't generalize, we personalize.

When bringing value to companies, we never generalize on the topics. We focus on understanding the key specific needs that each company has to then bring what it really needs. Companies need different things and the same company will need different things at different times. Having the ability to understand what can positively impact a company and then delivering on the promise - providing real positive impact to them - is what differentiates “smart capital” from “real smart capital”.

Our entrepreneurial DNA drives us to always roll-up our sleeves and work alongside the teams to help them maximize their chances of success, providing our operational experience to them. We provide support from every possible angle, 24/7. We know how hard it is to build a company and we empathize with that feeling every day, next to the founder, by being at the co-pilot seat and helping in every corner. We always feel honored and proud to be able to be the “first call” of our portfolio entrepreneurs.

“VCs can also help to attract talent for founders.” It is very common to get calls from extraordinary professionals looking for new opportunities in the market, asking for recommendations and intros for portfolio companies. They trust in our judgment and also want to be part of the portfolio family. Extraordinary talent will always be diligent and thoroughly analyze a company before joining. Part of this analysis will be very similar to the analysis we do when investing: can this company become huge? Is the team A+++? Is the business model solid? Having a high reputation VC behind a company can help the candidates reinforce some of the answers to these questions, hence providing extra vetting and trust to join the company.

For emerging fund managers, building a solid reputation and trust in the business market is critical to be able to support founders with top notch executives for their scale-up journey.

To have operated as a founder or worked at a startup in an operating role is a big “super power” to add value to companies as a GP. You have been there already and learned many of the do's and don'ts, and you know what an emotional rollercoaster to scale a company can be, enabling you to better serve and connect with all founders in (hopefully) every situation they are and will be.

NICOLAS BERMAN
Partner at venture firm KASZEK

KASZEK

4.1 Challenges to portfolio companies

A bottom-up approach that venture investors could adopt to find possible value-adding activities would be to look at the challenges portfolio companies in LatAm face.

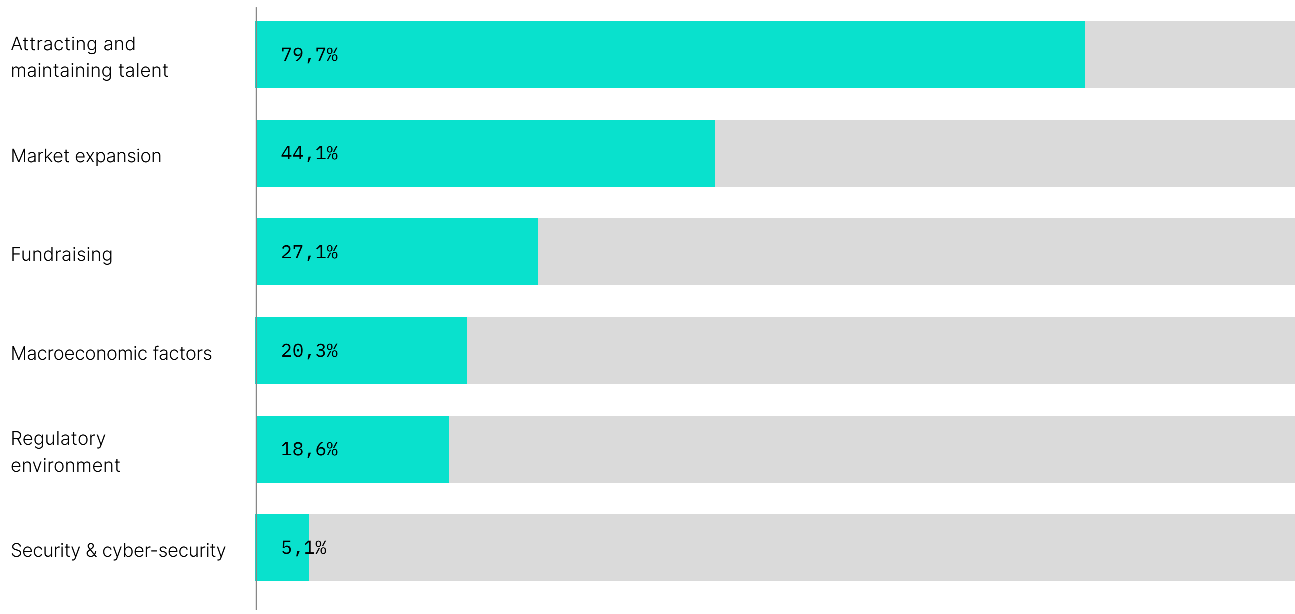
Maintaining a break-neck pace of growth and expansion - Scaling-up - can be very challenging for tech companies. **Our survey indicates that the hardest challenge identified by the most respondents was the challenge of attracting and maintaining talent (79.7%), followed by market expansion (44.1%) and then fundraising (27.1%).** All 3 of these challenges relate to the inherent difficulty in scaling-up: market expansion is necessary to expand the company’s revenue base, acquire more customers and therefore grow; attracting and maintaining talent is necessary to have the best and most competitive team, allowing the company to expand quickly and serve its rapidly growing customer base; fundraising is necessary to finance both of these processes and to attract additional senior business acumen.

This is in contrast to the other challenges listed on figure 19. For example, macroeconomic factors (20.3%) and the regulatory environment (18.6%) are both challenges which are related to a company’s operating environment, and there is little that investors can do to help with these challenges.

However, they can help with the three challenges related to scaling-up. Helping with fundraising is arguably the most straightforward, considering that it is the closest to the daily activities of VC investors. Here, having a strong network of later stage investors and VCs from other geographies could be of immense value to entrepreneurs. Help on more practical matters such as pitch-deck design, fundraising strategy, valuation and a high level perspective on the overall market sentiment could be equally useful.

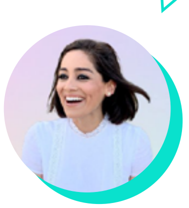
Supporting market-expansion and talent-acquisition requires considerably more time and resources. As can be seen in our prior section (figure 18), substantially fewer VCs help resolve these challenges. Help acquiring talent involves having teams specifically devoted to supporting entrepreneurs with recruitment and business development, which is especially resource intensive; help with market expansion and softlanding involves having a wide network of contacts. If done well, it’s an equally more operational and hands-on approach that requires full-time team members. Needless to say, this consumes significant management fees, which are difficult for smaller sized funds and emerging fund managers to obtain. However, given that market-expansion and talent-acquisition are the greatest challenges facing portfolio companies there’s surely value in helping to overcome them. Here, we see a potential effect: VCs which are already successful, which are of a significant size and which are equipped with the necessary budget to offer help with these challenges can have an edge over emerging fund managers, which have smaller team sizes. There might be innovative ways to compensate for the lack of a sizable team. For example, some solo GPs such as Lolita Taub (founder of Ganas VC) follow a community based approach to venture and have a sizable social media following. This can help them compensate for the lack of team size and “punch above their weight.”

Figure 19 Hardest challenges portfolio companies face
Which are the hardest challenges your portfolio companies are facing currently? (Multiple choice, n=59)



When asking Lolita Taub on her approach she responded with the following:

"A social media following doesn't move the needle unless you have an engaged community: a group of values and mission-aligned people that know that working together we can achieve something bigger than what we could on our own. That's what we're seeing in the Ganas Ventures community. Our LPs want to roll up their sleeves, we have a pipeline of incredible startups to back, and we're attracting top talent. Thanks to our community-driven fund approach, we're punching above our weight and creating a space where good people can come together, back the future, and create generational wealth in the community."



LOLITA TAUB
Ganas Ventures

Interestingly, the challenge of fundraising was identified as very difficult by relatively few respondents (27.1%), indicating that our data sample find access to capital the least of the challenges relating to scaling up. This makes an interesting contrast with a prior study conducted in the Chilean ecosystem a year ago by Matrix Consulting and Endeavor, which identified access to capital as the main challenge for entrepreneurs.[12] Here it's worth noting the specific nature of the portfolio companies mentioned above: they all have by definition accessed capital successfully as they are part of the portfolio of a venture firm. While access to capital might not be a great challenge for these entrepreneurs, for many other entrepreneurs and scale-ups it continues to remain a considerable challenge.

To conclude this section, we believe that VCs should continuously review their value adding activities to ensure that they stay up to speed and relevant to entrepreneurs. Only by finding new ways to be of value can they adapt their value proposition to their entrepreneurs' changing needs. They can do this by collecting continuous feedback from portfolio companies through tools such as NPS scores. There is ample space in the VC asset category for new ways to partner with entrepreneurs along their scale-up journey and to add-value, and this is especially important for emerging fund managers to create their own niche.

12 Melhado, J., Barriga, A. et al. "Scale-ups en Chile, Desafíos para impulsar el ecosistema". Endeavor Chile & Matrix Consulting, 2021.Disponible en: http://www.endeavor.cl/scaleups_desafios/

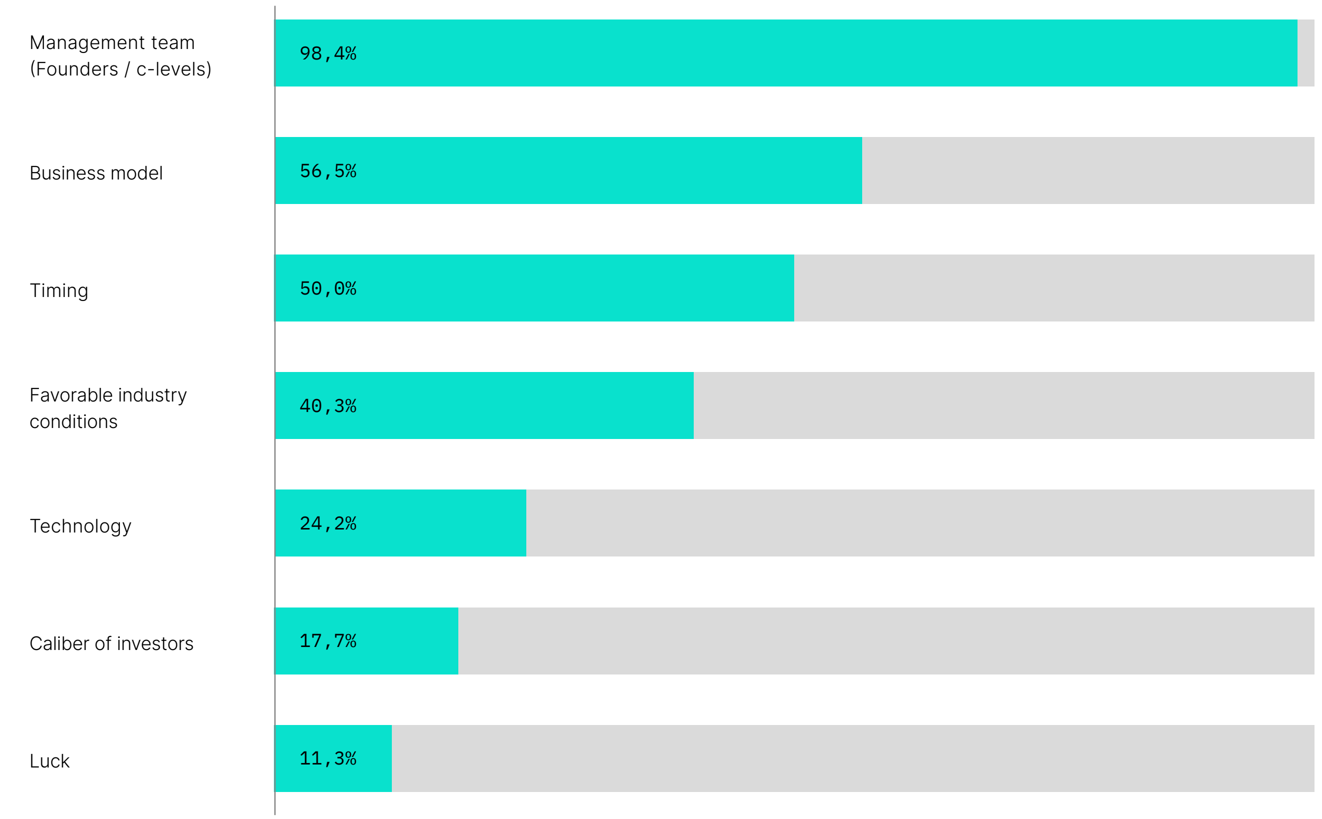
Deal Outcomes & Performance

↪The final stage of the VC investment process is the outcome that portfolio companies achieve. When looking at this stage of the investment process, we first analyze the causes for the success or failure of a portfolio company. We then examine how these companies exit into the wider world and the returns they generate. Finally, these returns need to be communicated to the LPs that invested in those VC funds. As such, we examine how VCs communicate returns to better understand LP motivations for engaging in the asset class.

When analyzing the causes of their successful investments, by far the most notable trend is the importance placed upon the people behind the business: **98.4% of respondents identify the management team as one of the most important factors** in investment success (figure 20). This was followed by the business model in terms of importance (56.5%). This seems to suggest that **Venture is predominantly a people business,** and this makes sense when considering that VCs tend to invest in very young companies with a very high potential. The business models often aren't fully developed yet, so companies rely heavily on the combination of the vision of the founders and the effectiveness of the management team to implement that vision. Naturally, a key part of implementation is establishing a working business model. It's also worth noting that the leading team is also key for adapting to the high level of uncertainty and change inherent in starting a new cutting-edge business.

Figure 20 Factors influencing the success of past investments

Looking back at your successful investments, what factors most contributed to their success? (Multiple choice, n=62)



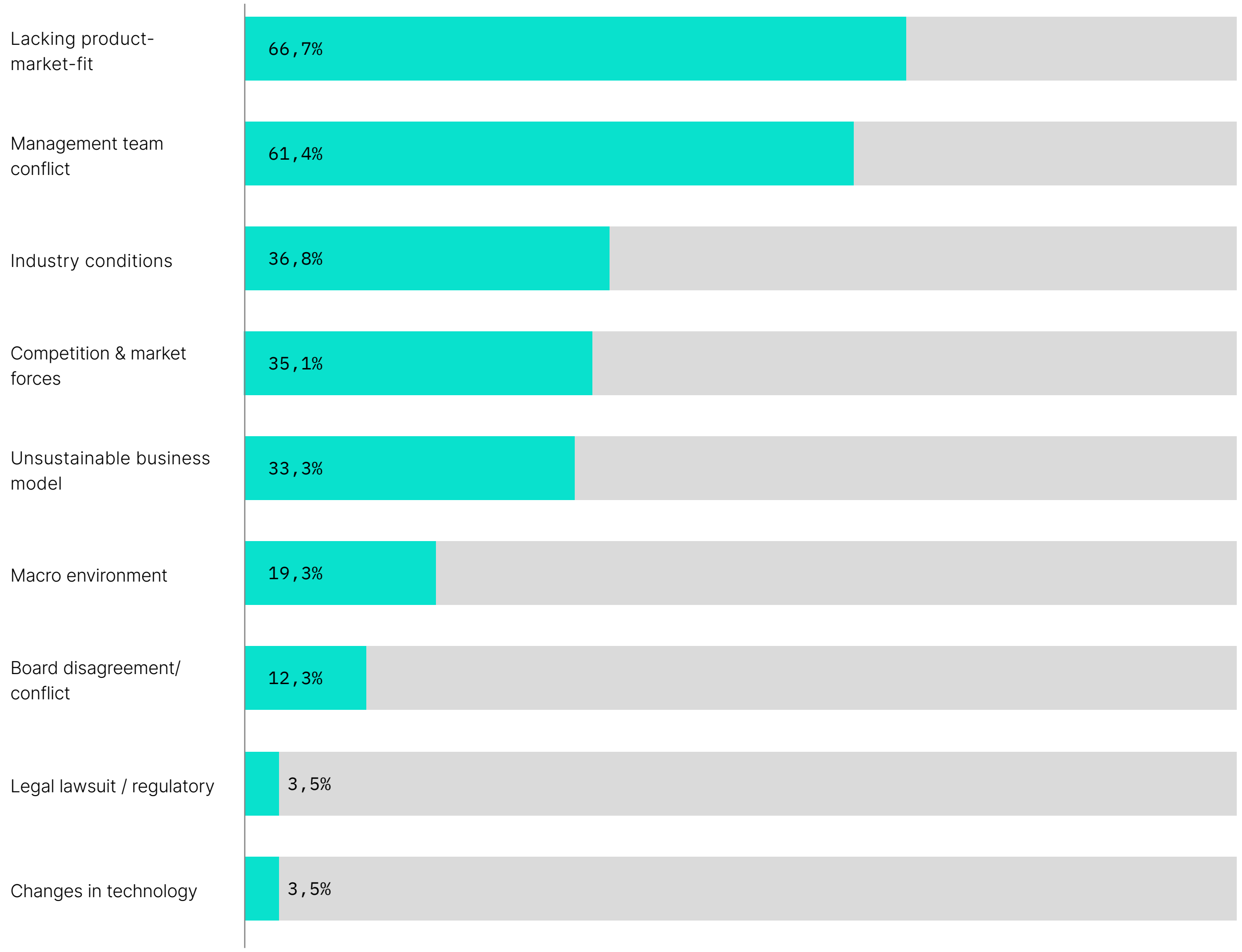
It also appears that factors which relate to the operating environment can play an important role in success.

Timing was considered very important by 50% of respondents and favorable industry conditions by 40.3% of respondents, and while these percentages represent only half (or less than half) of respondents, the fact that these factors are considered the most important suggests that they are significant.

The high importance of the operating environment for VCs indicates that a considerable amount of what might go into the success of an enterprise has little direct relationship with the management team or the business. This suggests that there is a significant implication of external factors influencing the performance of a business. To us this comes at no surprise. Businesses operate in their respective contexts and are not ambivalent about them; there are complex interdependencies at play.

Figure 21 Factors influencing the failure of past investments

Looking back at your failed investments, what factors most contributed to their failure? (Multiple choice, n=57)



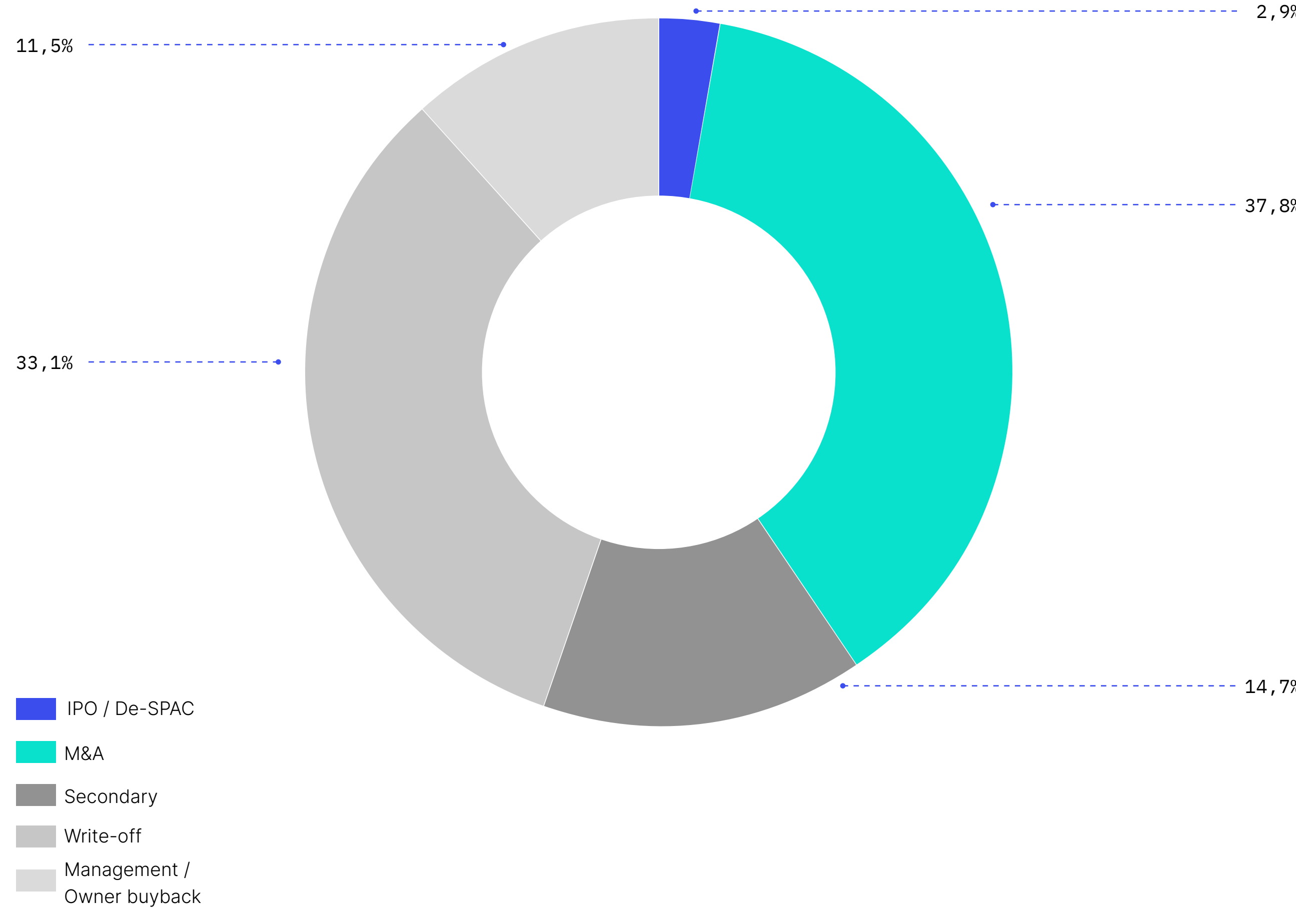
When looking at the reasons that portfolio companies fail (figure 21), both the team and the business were the most highly ranked factors: the factor chosen by the majority of VCs (66.7%) is a lack of product market fit, closely followed by management team conflict (61.4%). The ranking of product market fit might be amplified due to the early stage bias of our data sample.

The early stage nature of our sample also results in a highly dynamic operating environment for portfolio companies, which many VCs identified as key factors for success. This is reflected in the high placement of factors relating to a difficult and uncertain operating environment: industry conditions (36.8%) and competition and market forces (35.1%) were chosen by the third and fourth most respondents.

Interestingly, the ranking of factors for failure is similar to that of factors for success in the prior graph (figure 20), in that business and people factors are again considered the most important, followed by those relating to the operating environment. This reinforces the centrality of people to the success or failure of portfolio companies as well as the volatility and unpredictability of their operating environment.

Figure 22 Exit distribution of a strong set of investment outcomes

Think of the companies you have invested in and exited. Of those investments, how many times have you experienced each of the following outcomes? (n=40)



When asked how portfolio companies exit, respondents answered that almost half of these companies don't exit successfully (for the VC), either being bought out by the managers (11.5%) or being written off (33.1%). This is in line with the high-rate of failure expected in the asset class, which we cover in more detail when analyzing the exit multiples displayed on the next graph . Of those companies that manage to exit successfully, it's notable that only 2.9% have managed to do so through an IPO, and the majority (37.8%) do so through an M&A.

Secondaries are exits that are often successful, and they are the third most popular type of exit overall (14.7%). This makes a lot of sense given the early stage focus of LatAm VCs in general. A secondary can be an attractive exit opportunity for a small early stage fund as it allows the fund to liquidate its equity in a later stage round when growth investors begin to get involved.

It's important to note that these exit percentages are certainly tilted towards the more successful end of the spectrum (considering that the majority of funds in the region are too young to have experienced many liquidity events from their portfolio). Nevertheless, it provides the opportunity to illustrate a future distribution that a fund operator might aim for.

LatAm exit data is especially interesting when held in comparison to the US data sample, where 15% of companies exit through IPO, 53% do so through an M&A, and 32% don't exit successfully. The greater rate of failure in our LatAm data sample can in large part be explained by its emphasis on the early-stage, owing to the relative youth of the ecosystem.

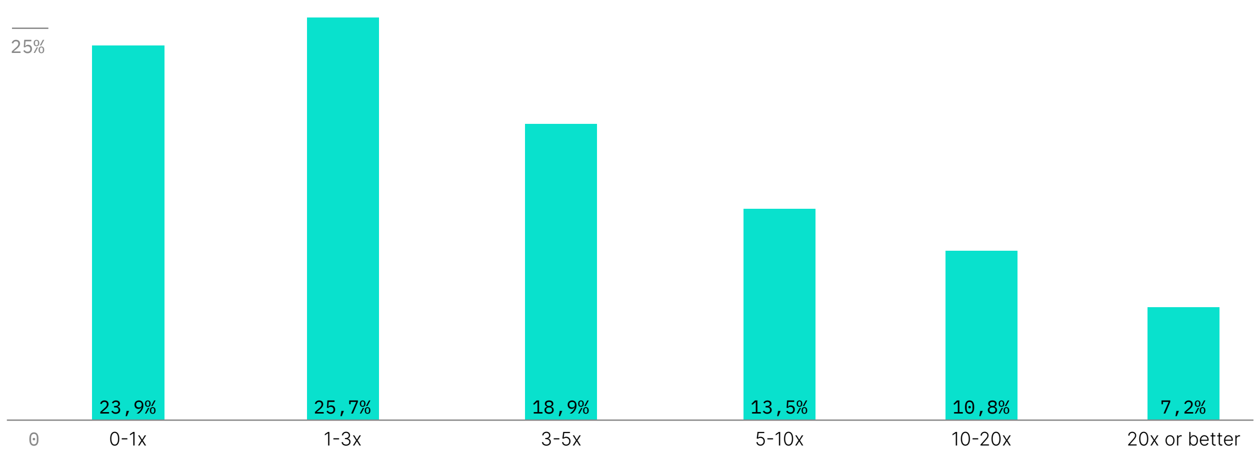
What's also notable is that, in general, the proportion of exits that happen through an IPO (as opposed to an M&A) is much lower in LatAm than it is in the US. There are notable exit cases to this rule, for example Nubank exiting on both NASDAQ and the Sao Paulo stock exchange or Satellogic exiting through a SPAC on NASDAQ. A key cause behind this difference is that capital markets in LatAm are generally less developed than in the United States.

Another possible general cause is the difficulty and expense of going public, especially on the world's most renowned indices. Regionally, the fact that local stock markets tend to have less available capital and less experience with technology makes them less attractive and more of a risk. However, in recent years we can observe that there is more listing activity and a greater technological focus of stock exchanges in LatAm (in particular on B3 in Sao Paulo and BMV in Mexico City).

We cannot yet see a change in trends that companies in the future will prefer to list regionally (instead of globally) if they have the chance. The appeal for the most successful companies to list on Nasdaq is too great to ignore. Nevertheless, we argue that we might see a greater activity of smaller listings by tech players in the region in the years to come, which would prove fruitful to refresh regional stock indices with different kinds of players.

Figure 23 Frequency of cash-on-cash multiples experienced on exit

Again thinking of the companies you have invested in and exited. How frequently did you experience cash-on-cash multiples in each of the following ranges? (n=25)



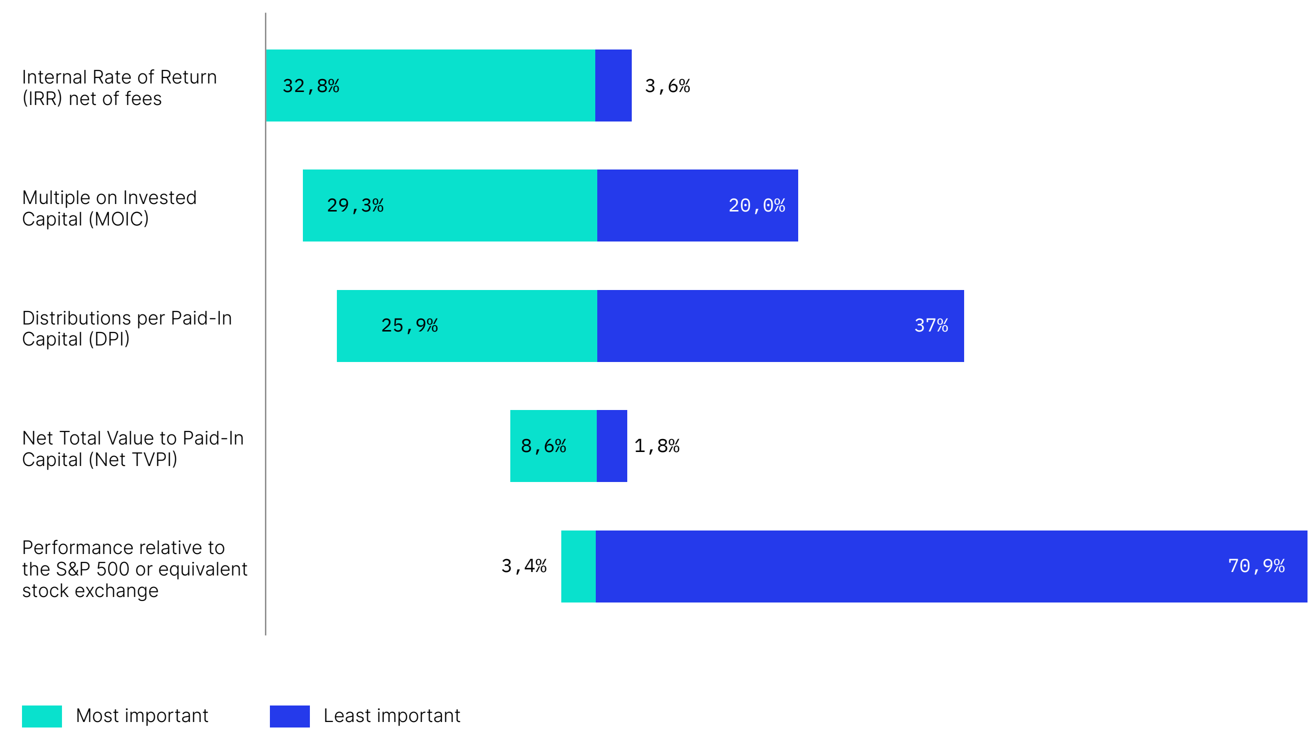
After portfolio companies exit successfully, a considerable chunk of those returns goes to the VCs which invested in the companies. Our survey shows that these exits tend to be financially successful by VC standards, and are often very successful (figure 23).

Whilst there are a sizeable number of companies that fail or break-even (23.9%), or that don't generate sufficient returns (25.7%), VC is an asset class which depends on outliers: it's generally accepted that the few investments that make it big are the ones that generate the outsized returns that VC as an asset class is known for.

In light of this, the most important segment of this graph are those companies which achieve returns of over 10x, and ideally 20x. Given that these companies are so important, it's notable that our data suggests that if a given fund invested in 10 different enterprises it has a decent chance of striking a company with a 20x return, and a good chance of at least one company with a return of 10x or more (18% probability per investment), which ultimately are the kinds of companies that are "returning the fund."

Figure 24 Investment benchmarks for LPs

Which investment benchmarks are the most important to your LPs? (Ranking, n=59)



After reaching VCs, returns from exits filter to the LPs who invest in those vehicles. As such, how VCs frame their track record to LPs is important to illustrate how they understand the value-proposition of the asset class.

The 3 most important metrics to illustrate the track record for LPs are IRR net of fees, followed by MOIC (multiple on invested capital), and finally DPI (distribution-to-paid-in capital). The MOIC provides an indication of the absolute returns that a fund achieves. The DPI focuses on gains that have been returned to the investor (and are therefore certain), and this metric is especially important to more conservative LPs. The IRR factors the time value of money into account - returns that are realized earlier are weighed more heavily - and can refer to either realized or unrealised returns.

The first point to note here is that preference for each of these metrics is relatively closely distributed - for instance, preference for IRR is not much greater than for DPI - which indicates that all three metrics tend to be useful. Nevertheless, the slight emphasis on IRR over MOIC suggests that the time value of money is especially important - VC is a long-term asset class.

Interestingly, comparisons with the S&P 500 are ranked very low, with only 3% of respondents considering it to be very important. The US sample also had a very low emphasis on this factor - only 1% of respondents considered it important. This suggests that LPs aren't interested in comparing their returns to the public markets, which represent an alternative place where they could invest this same capital. As such, it seems LPs are predominantly interested in absolute returns when looking at the VC asset class (while also factoring the time value of money into account), as opposed to the returns that VC can achieve relative to other asset classes or investments.

To conclude, given the close proximity of the 3 metrics (IRR, MOIC and DPI) we argue that GPs track a variety of metrics to evaluate the performance of their respective fund(s). Each provides a different angle and is therefore valuable to be tracked and benchmarked against the others.

EXPERT COLUMN

"As an early stage investor, there are things that can be changed about a business if needed, such as its business model, target segments, etc. That's why the team is so important".

Caio would always prioritize the team: if the team is great and the market big enough, the business model becomes less relevant as the founders will find a way to build a great company and adapt the business model accordingly.

"Factors of failure are oftentimes based on execution issues", and the lack of product market fit is more of an output than an input. Ultimately, what matters is the execution capacity of the team inside that market. Failure due to regulatory changes does happen, but it is very rare.

"We have several companies in the region that could be ready for Nasdaq IPOs, but are just waiting for the right timing" According to Caio, the distribution in the survey results between M&A and IPO makes sense. However, the distribution might change in the next few years to come. More companies in LatAm are reaching Nasdaq valid performance and growth capital is now available in the region, so these companies can really scale. There might be more IPOs soon to come with companies that are waiting in the queue for the right timing and market conditions, but then again there is a sizable number of companies that are not ready yet.

"There is a fine line between Acqui-hire / M&A deals and write-offs: some write-offs are dressed up as M&A deals, but in reality they are write-offs for the fund, which is part of the venture game." Recently, we have seen more and more Acqui-hires in the market. These transactions are often categorized as M&As from a statistical perspective. However, for the investors, this could mean a write-off of the invested capital. Nevertheless, this is a sign that the VC market in the region is becoming more mature and it's part of the venture game.

"Return distribution and multiples is always perverse in venture and power law dynamics weigh heavily" We have to remind ourselves that the fact is that very few companies will have a disproportionate return to the fund, even though we wish it was not so.

The benefit of being a VC that has many cohorts and past vintages makes the impact of the power law and outsized returns more comprehensible to you, because you have seen it play out in action.

CAIO BOLOGNESI

General Partner at venture firm Monashees

monashees+

"20x plus returns can take up to 10 years to be generated and it takes continuous work. In venture capital it is not only the outsized returns that matter, but also your patience to get there! This is counterintuitive, you just have to be resilient."

CAIO BOLOGNESI

Geographic Comparisons

To be able to judge the maturity of the LatAm ecosystem as a whole, it's crucial to evaluate geographic discrepancies within it as they can shed light on the dynamics between individual ecosystems. Latin America is a diverse region with two sizable economies (Brazil and Mexico) that make up 53% of its GDP[13], and a host of smaller economies. It also has a significant division between its Spanish speaking countries and its Portuguese speaking country. We wanted to examine whether and how VC funds navigated the challenges of adapting to these different environments and capitalizing on them.

Figure 25 VC investment in LatAm's major markets (LAVCA, December 31, 2021)

Mapping the Major Markets

	2019		2020		2021		Y-O-Y GROWTH (2020-2021)	
	No deals	Amount (USDm)	No deals	Amount (USDm)	No deals	Amount (USDm)	Number of deals	Amount invested
Brazil	217	2,501	286	2,406	419	7,570	47%	215%
Mexico	93	728	101	835	159	3,571	57%	328%
Colombia	38	1,133	37	472	78	1,559	111%	230%
Argentina	27	294	26	214	60	1,290	131%	503%
Chile	43	75	36	140	82	858	128%	513%
Peru	4	1	5	21	17	115	240%	446%
Rest of LatAm*	17	174	15	54	41	772		
Total nuber of deals	**439**	**4,906**	**506**	**4,143**	**856**	**15,736**		

*Rest of LatAm includes Venezuela, Costa Rica, Uruguay, Panama, Guatemala, the Dominican Republic, and rounds for startups with no clear geographical presence in one single country.

13 The World Bank, World Development Indicators (2020). GDP (current US$). Retrieved from https://databank.worldbank.org/reports.aspx?source=world-development-indicators

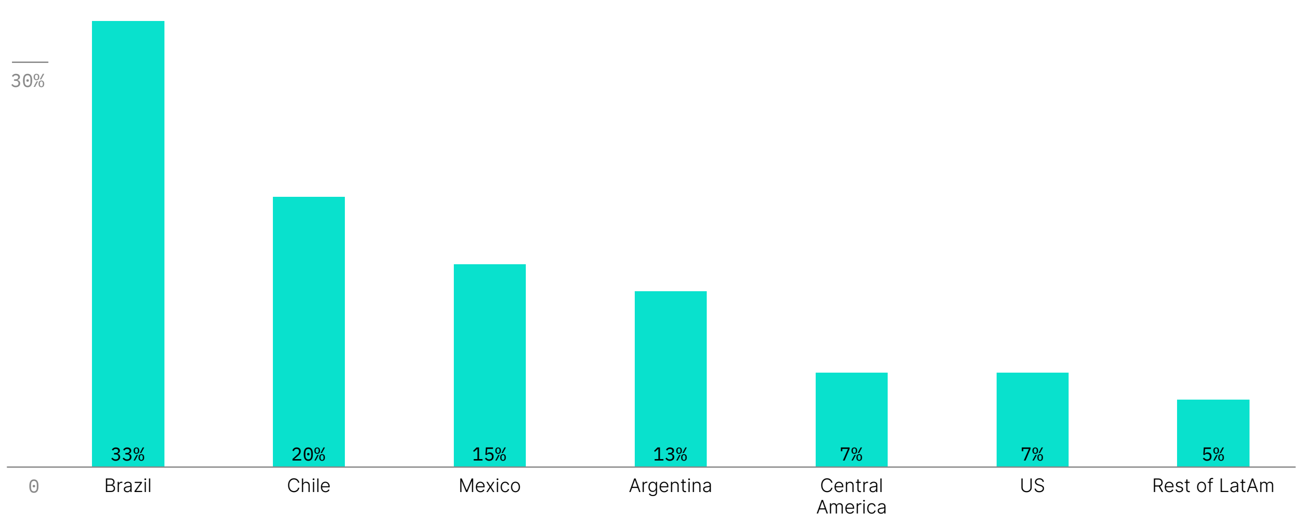
Figure 25 illustrates how VC investments are distributed throughout the LatAm region. Here, we can see that of the 15.7$bn invested in the region in 2021 roughly half went to Brazil (7.6 bn$USD), the biggest economy in the region. 3.5$ bn went to Mexico, the second largest economy of the region. This is perhaps surprising given that this level of investment is less than half of Brazil's, when Mexico's economy (GDP) is 75% that of Brazil.[14] The rest of the investment is distributed amongst the other countries in the region, with significant amounts going to Colombia, Argentina, Chile and Peru.

Our study hopes to complement this data with a more in-depth look at the funds behind the investment numbers: where they headquartered, where they tend to invest, how old they are, etc. By doing this, we hope to get a better understanding of the dynamics driving capital flows in the LatAm region.

The distribution of VC headquarters across Latin America in our data sample is roughly similar to the way that capital is distributed across the different countries in the region. The majority of respondents had their headquarters in Brazil (33%), followed by Chile (20%), Mexico (15%), and Argentina (13%). It's important to note that there is probably an overrepresentation of VCs in Chile, given that it was the Endeavor branch in Chile who sent out the survey. It's also important to indicate that fund investments often aren't restricted to the country in which the fund is headquartered, and that they often invest beyond these borders. For instance, the funds headquartered in the US (7%) by definition have to invest primarily or exclusively outside of the US (the survey only examines VCs which invest exclusively in LatAm).

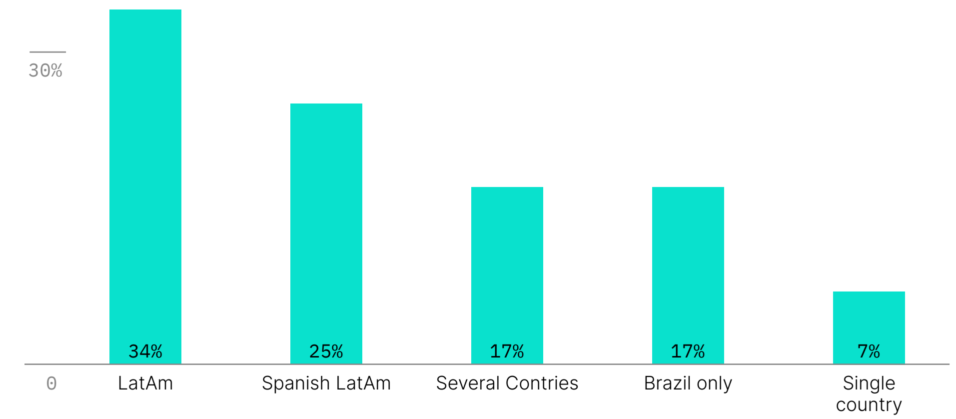
In the next section, we can observe important spill-over effects from cross-investment throughout the region.

Figure 26 Headquarters of LatAm VC respondents
Where is your VC firm headquartered? (n=82)



13 The World Bank, World Development Indicators (2020). GDP (current US$). Retrieved from https://databank.worldbank.org/reports.aspx?source=world-development-indicators

Figure 27 Geographical investment preferences of LatAm VCs *(n=83)*



When looking at where VCs invest in figure 27, we can see that the majority of VCs invest regionally throughout LatAm (34%). This means that they do not distinguish between geographic conditions, but focus on business potential at scale. On a similar note, 25% of VCs invest throughout LatAm but exclude Brazil. Unsurprisingly, Brazil is the outlier country when it comes to investments: many VC firms exclude it from their regional focus, and equally Brazil has by far the largest proportion of investors who invest exclusively there (17%). This speaks to the maturity of the Brazilian ecosystem, its market size and the wide range of investment opportunities the country offers. 17% of VCs invest in several countries (but not regionally), and only 7% invest in a single country (outside of Brazil), highlighting the regional nature of the venture capital industry.

Table 3 Comparing the levels of maturity of LatAm countries and their funds*

Variables/Countries	BRAZIL	MÉXICO	SOUTHERN CONE	CENTRAL AMERICA	US
Mean first vintage	2014	2014	2017	2018	2016
# Unicorn investors	7	7	3	0	4
Mean # last capital raise	US$96M	US$61M	US$73M	US$14M	US$51M
Median fund size	$100 - 199M	$100 - 199M	$10 - 49M	$10-49M	$10-49M
Average team size	10	8	8	7	10

*The graph was put together by linking each of the categories on the left (e.g. fund size) for each respondent with their respective headquarters

We can observe significant discrepancies in the levels of maturity of the VC ecosystem across the countries in our data sample. These discrepancies become quite evident when looking at Table 3, which compares ecosystems in different countries by several core variables. From here, we can observe that Brazil and Mexico are significantly more established, since they have earlier mean first vintages, greater median fund sizes, and greater numbers of unicorn investors. This indicates that both of these countries have a more dynamic local investing landscape. By these same criteria, Argentina, Chile and Uruguay (summarized as the Southern Cone) seem to be smaller than the more established countries. Nevertheless, these countries seem to be more established than Central America, which appears as the most underserved market in the region by a wide margin.

These different levels of maturity in the region are also evident when analyzing the professional backgrounds of the survey respondents (figure 28). The important multiplier effect of entrepreneurs becoming investors has taken off across all markets except for Central America, where none of our survey respondents has a background as an operator or as an entrepreneur. This by no means indicates that Central American VCs are less professional than others, but it does show that these important virtuous feedback loops take place in startup ecosystems as the startups within it grow and mature, and that these exits have not yet taken place to a significant extent in Central America.

Figure 28 Professional backgrounds of VCs

What was your professional background before entering VC? (Based on your last role, n=85)

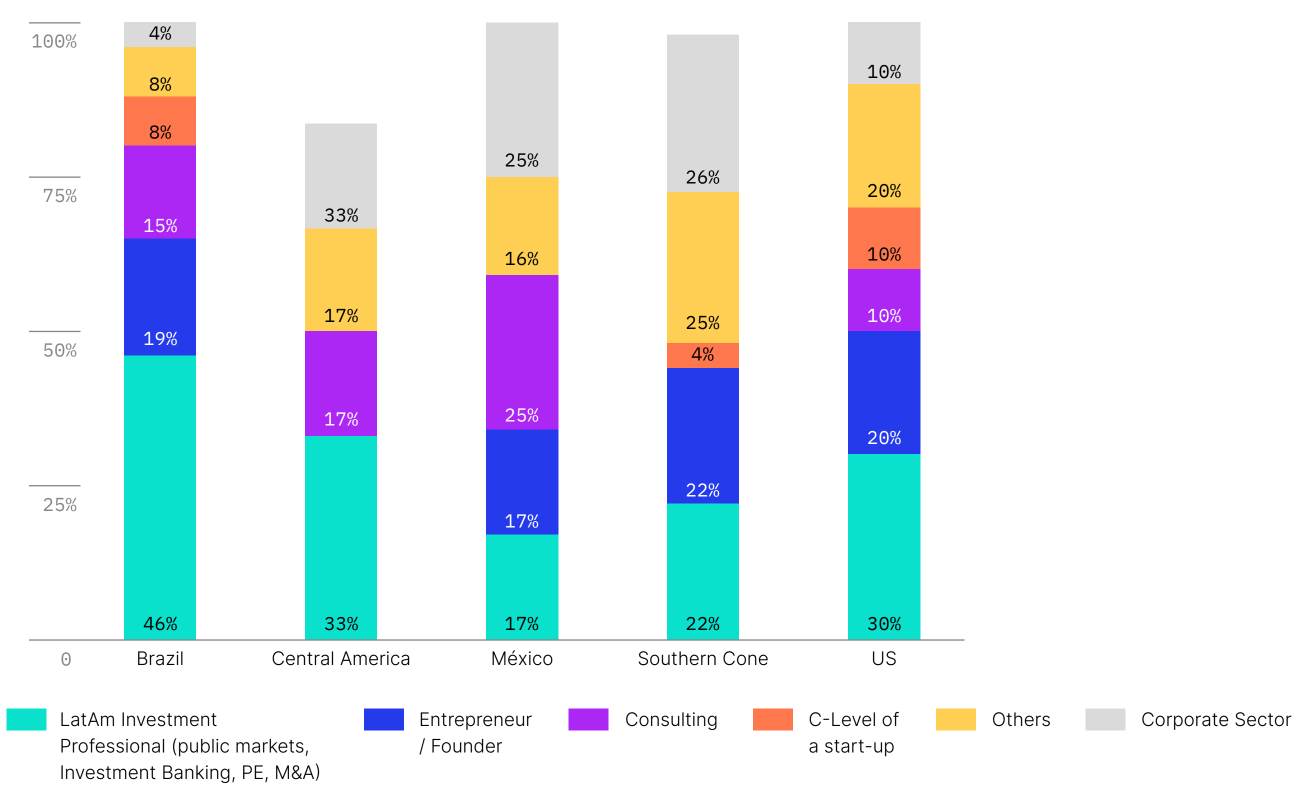


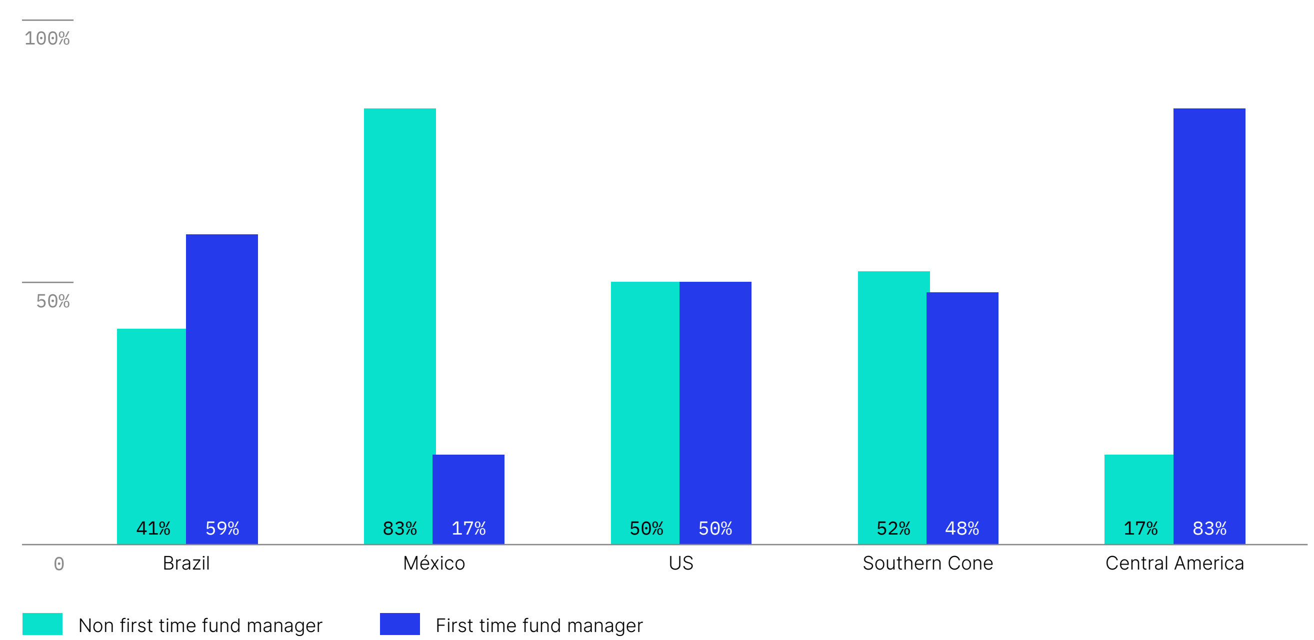
Figure 29 continues to complement this picture. When looking at first time fund managers, we can see a significant level of maturity in the Mexican VC ecosystem, since a strong majority of 83% of survey respondents are established fund managers (as they come from a previous venture investing background). Interestingly, Brazil presents a very different picture despite its ecosystemic maturity: a majority of fund managers are first time fund managers (59%). This indicates a dynamic venture ecosystem, with many newcomers entering the asset class.

When we asked Bianca Martinelli, Partner of Brazil based venture firm Alexia Ventures, about this trend she commented that "Brazil has been one of the first countries in the region to display true early stage venture capital with its first generation of Ventures funds such as Monashees, Astella and DGF. What we are now seeing is these VCs completing an important cycle, becoming role models for new firms. We are also seeing successful entrepreneurs becoming LPs."

> "The region as a whole and Brazil in particular has so much space for new GPs, but there is still a lot of education on the asset class taking place for LPs."

For the rest of the region, the picture is consistent with the previous graphs: Southern cone countries have a good balance between established fund managers and first-time fund-managers (roughly 50/50), and the Central American ecosystem overwhelmingly consists of first-time fund managers.

Figure 29 First time fund managers by region *(n=86)*

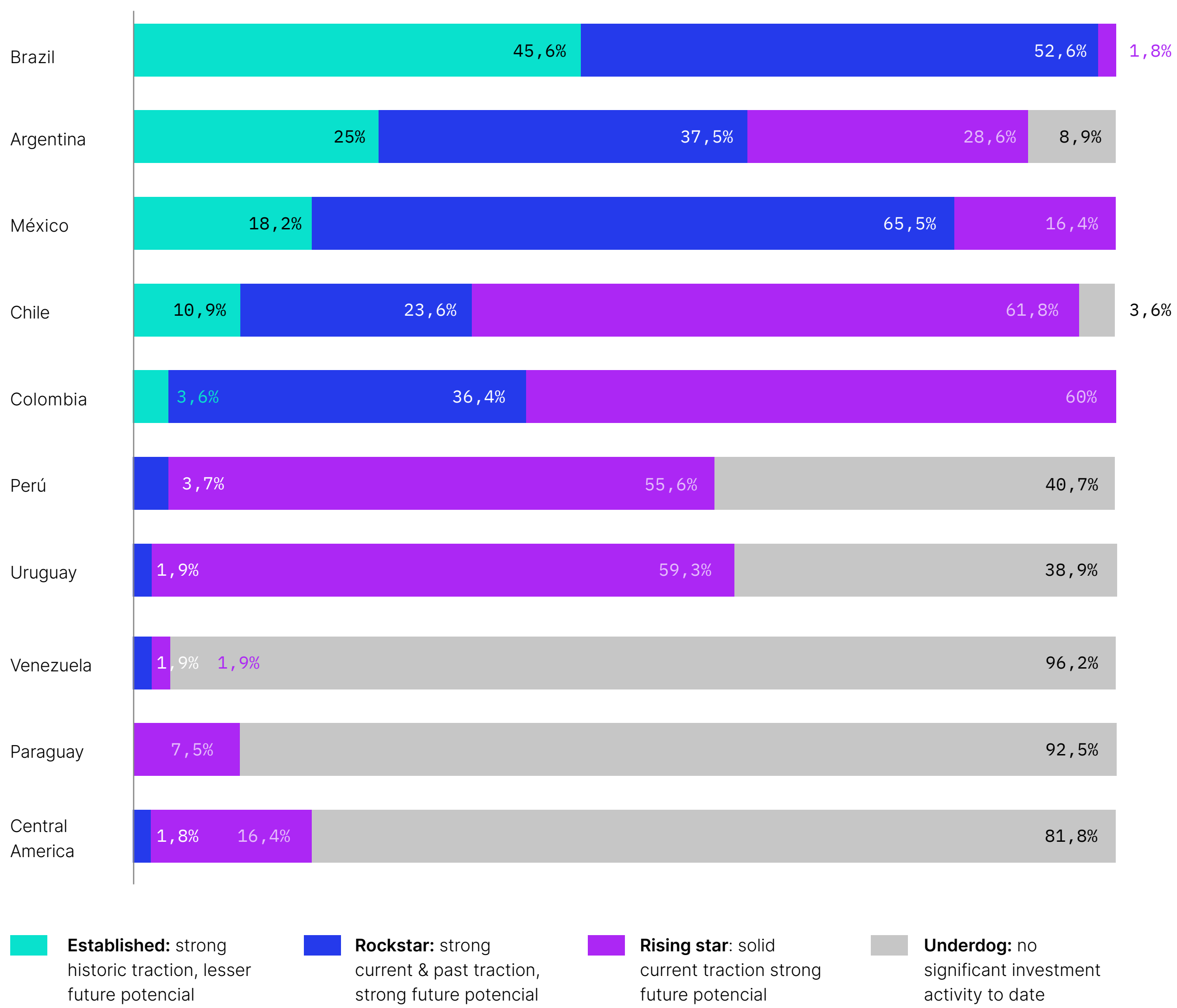


Finally, figure 30 indicates that VCs share a similar perception of the ecosystem: Brazil, Argentina and Mexico are most widely considered to be the most established ecosystems in the region (by 45%, 25% and 18.2% of respondents respectively).

Perhaps surprising is Argentina's position in the ecosystem: not only is it considered to be one of the most established ecosystems (more established than Mexico), but it also seems to be the most controversial one. Roughly an even number of respondents believe that it's established, a rockstar, and a rising star (with a slight majority in rockstar). On the one hand, Argentina was home to many of the first unicorns in the region, such as Mercado Libre, Globant and Despegar. On the other hand, we saw a large number of early stage funds in our data sample from Argentina, indicating a new wave of activity there. Otherwise, Chile, Colombia, Peru and Uruguay are most widely considered to be rising stars, whilst all other countries (or regions, such as Central America) are considered to be underdogs.

Figure 30 The condition of countries, based on past startup activity and future potential

Evaluate Latin American countries based on past startup activity (track record) and future potential (n=57)



In line with our perception, most investor sentiment seems to be quite bullish about the region: even the most established ecosystems such as Brazil, Argentina and Mexico are widely considered to be rising stars. LAVCA data compliments this picture, especially for the Southern Cone countries such as Argentina and Chile, whose year on year growth in investment was a staggering 503% and 513% respectively (although arguably from a relatively low comparison base in 2020).

This optimism also shines through in our next and final chapter on macro factors and the general outlook for the LatAm ecosystem. Here, we dive into perception of the region's future, as well as possible trends and pitfalls.

EXPERT COLUMN

"The Central American startup ecosystem is one of the most underestimated globally"

The majority of funds in Central America to date aspire to raise a fund of US$ 20M, many slightly below that. The team sizes are also significantly smaller than in other geographies in the region. Oftentimes the larger funds in the region operate across the region and do not invest exclusively in Central America.

Given the maturity of the ecosystem, there are still very few multiplier effects of entrepreneurs making it big and then branching out into venture.

"We have very little of this activity so far, the majority of VCs come from banking or consulting."

To improve this, Allan suggests focusing on a combination of levers. The region is composed of smaller sized countries. In order to tackle challenges of ecosystem maturity it requires a coordinated regional effort (e.g. a regional Venture Capital Association) instead of countries going at it alone. The LatAm VC Summit in Miami for instance is an excellent example of an effort to foster more collaboration between GPs in the whole region.

"There is no framework for institutional investors (such as pension funds or insurance companies) in the region to get exposure to the asset class yet.If this were to happen, we would certainly see a more dynamic venture space." Additionally, the public sector could be a lot more proactive in fostering innovation and startup activity. We can observe a lot of willingness but little action in comparison to what is happening in Colombia, Peru or Chile.

"We need more success stories in Central America for people to take notice of the opportunities on the ground and successful founders to come back to the region and pay it forward."

ALLAN BORUCHOWICZ
Managing Partner at Carao Ventures

carao ventures

"We need more success stories in Central America for people to take notice of the opportunities on the ground and successful founders to come back to the region and pay it forward."

ALLAN BORUCHOWICZ

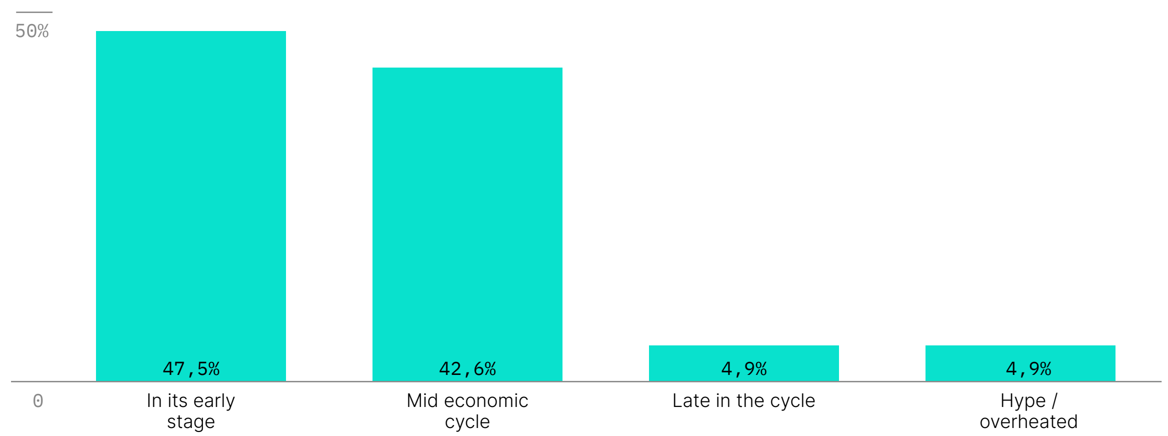
Macro Factors & Trends

Where are we heading in the LatAm VC ecosystem?

Where are we heading in the LatAm VC ecosystem? LatAm VCs are generally optimistic about the near future of the ecosystem, overwhelmingly believing it to be in an early or mid stage of an economic cycle. This optimism is particularly concentrated around the Fintech sector, and is otherwise relatively evenly distributed between the different verticals. Nevertheless, the region still faces considerable challenges, and here geopolitical conflict and inflation were most widely identified as the most significant macro risks.

Figure 31 Perception of the stage of LatAm's VC ecosystem

At what stage do you see the VC ecosystem in LatAm? (n=61)



According to our study, the vast majority of VCs (90.1%) see the ecosystem as being either in its early stages or in the middle of its economic cycle.

In essence, this means that the majority of VCs agree that there continues to be more opportunities than capital at the moment, so VC investment in the region can continue to increase sustainably.

This is particularly interesting when taken in the context of the broader regional trends that we're seeing: there is more capital in LatAm than there ever has been, and 2021 itself saw the most capital invested in LatAm by a significant margin, more than three times the amount of capital invested in 2020. For Q1 2022, we can observe a further 67% increase YoY according to latest LAVCA data. For the remainder of the year we might see this growth cool off due to the adverse macro environment, but long term opportunities remain strong and at Endeavor we are confident that the region will be able to weather the storm and return to its growth trajectory.

"While the Latin American tech ecosystem is not exempt from exposure to adjustments in global markets, we have seen the resiliency of local investors and operators in weathering macro and micro risks throughout the past decades. Talent concentration, maturity of local established managers, the proliferation of emerging GPs and the significant liquidity events we recorded in the past two years will all be key topics strengthening the secular upwards trend we have witnessed take place since Latin America began doubling its figure of VC investment, in 2016, going from $500 million to $4.8 billion in 2019."[15]

CARLOS RAMOS DE LA VEGA

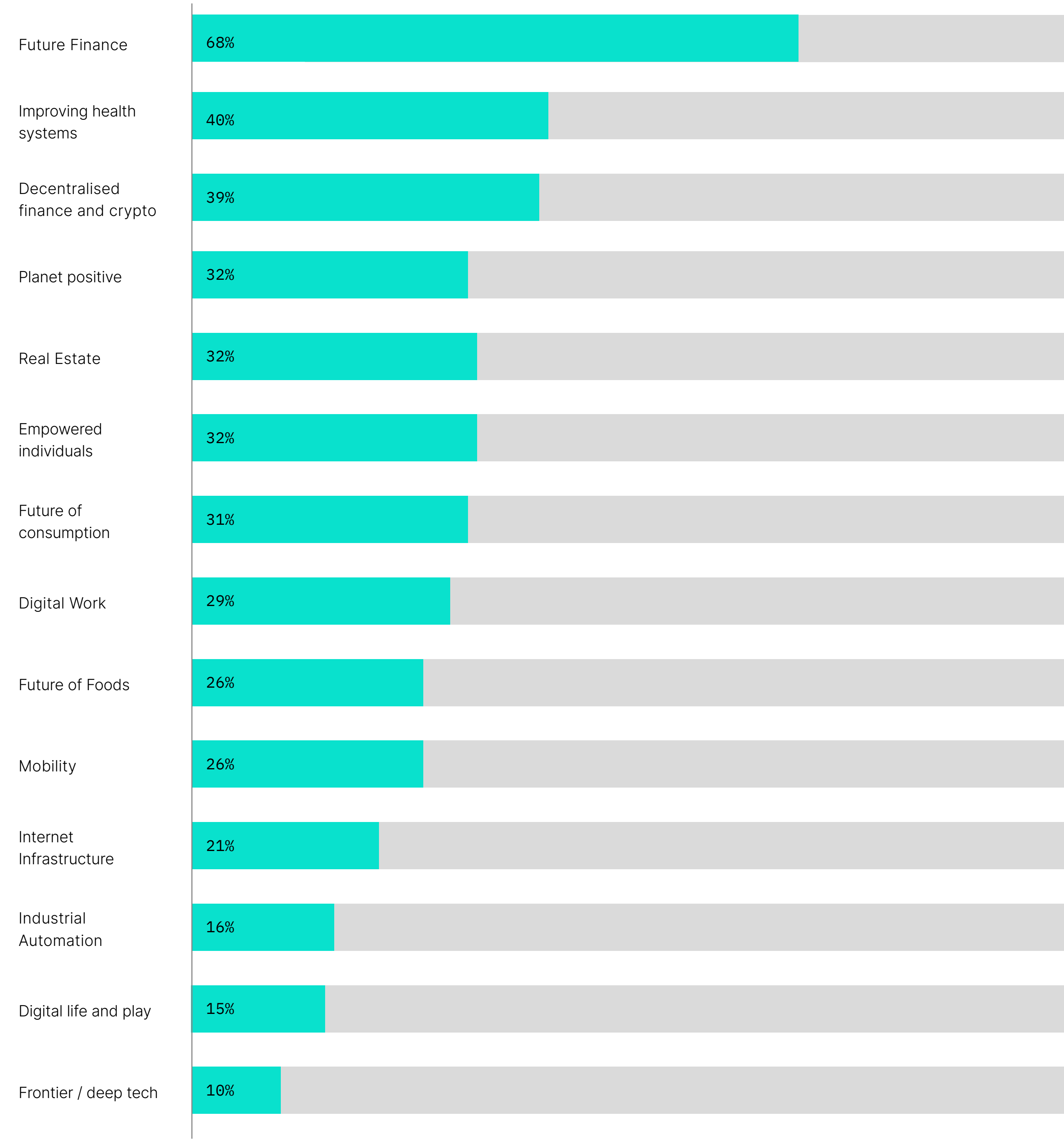
Director of Venture Capital at LAVCA

This speaks to the extent of the untapped opportunity in LatAm and the quality of entrepreneurship within the region. It is a ringing endorsement of the region's future.

15 https://labsnews.com/en/articles/business/latin-america-fourth-largest-quarter-q1-2022-lavca/?amp

Figure 32 Most promising sectors for venture capital investments in LatAm

Which sector(s) would you consider as the most promising for venture capital investments in LatAm in the near future? (Multiple choice, n=62)



Whilst VCs are optimistic about the future of the region as a whole, some sectors generate more excitement than others. Unsurprisingly, the fintech verticals generate by far the most excitement, with 68% of respondents excited by future finance and 39% by decentralized finance and crypto. The oth-

EXPERT COLUMN

“The LatAm ecosystem is leaving its early stage trajectory moving towards its mid economic cycle; we have seen explosive growth in the LatAm region over the last 2 years.”

Access to capital, a strong digital penetration and an increasing amount of talent coming out of the regional scale-up “mafias” are further accelerating the maturity of the ecosystem. The first employees of these companies are branching out and building their own companies, which is a fertile ground for startup success across the ecosystem.

At Alexia Ventures we are excited about tech-enabled communities and the decentralization of current business models, for example the empowerment of the developer community through dev. tools. Bianca and her team are also bullish on the infrastructure around Web3 and anything around merging traditional finance with DeFi.

Furthermore, they see a lot of potential in the continuing digitalisation of the SME sector and digital banking creating many new fintech players in the region. This trend will continue to be important over the next few years, but they hope to see similar developments in health care with access to information providing opportunities for entrepreneurs to create digital offerings for this sector as well.

Higher interest rates and inflation have been challenges the region has been coping with for so long, affecting businesses and the availability of capital. Many firms are reviewing their bar to invest in companies. Bianca’s advice to entrepreneurs is to tighten their belt and not only focus on the top line, but also the bottom line. **“Efficient use of capital is even more important now, ensuring that your business is viable in the long-term.”**

Alexia Ventures is seeing signs of VCs becoming more strict on valuations. Firms are well capitalized, but LPs want to see performance. Being fundamental on this, ensuring returns and doubling down on your thesis is crucial. LatAm as a region has faced so many crises over the years and is very resilient, having created a set of spectacular entrepreneurs. If we think long term for the next decade or more the development will be very positive overall. **“We can be optimistic of this new generation of operators and investors to create sustainable businesses for the long run.”**

BIANCA MARTINELLI
Partner at Alexia Ventures

ALEXIA VENTURES

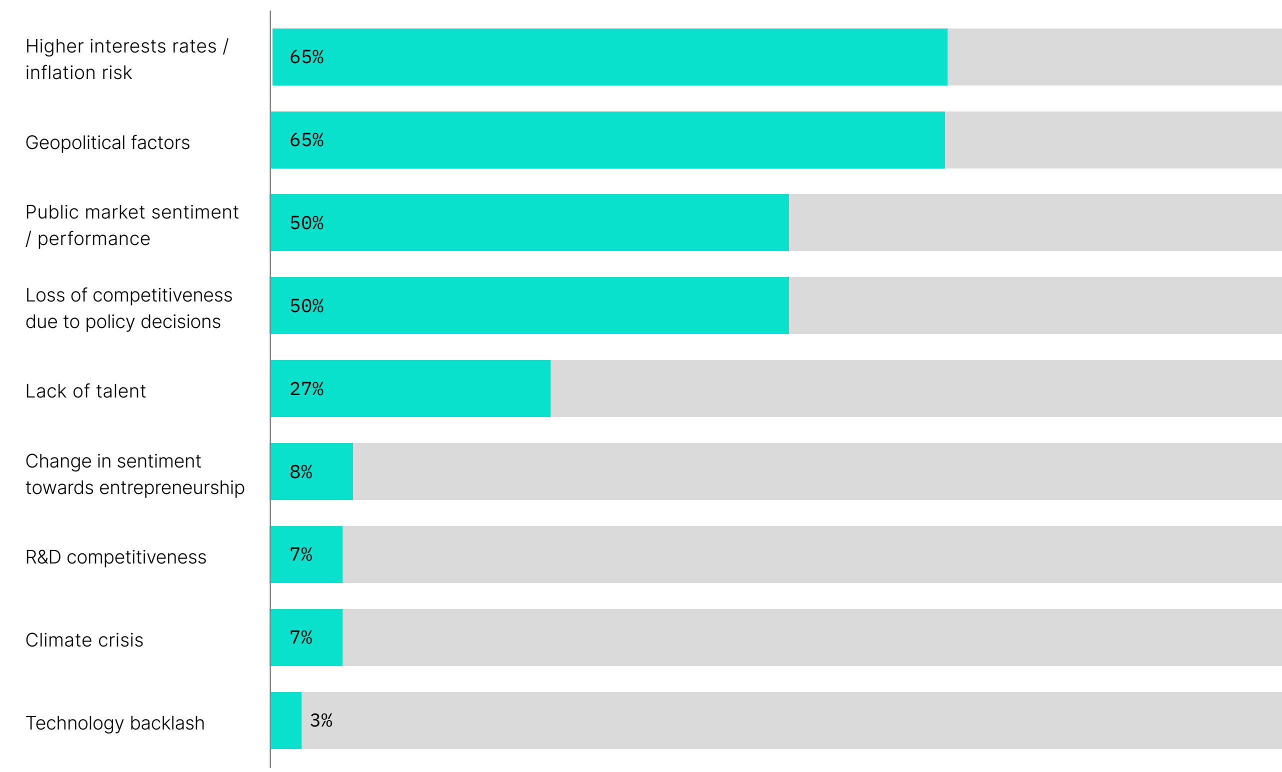
er sector which received a comparatively high-level of interest was improving health systems (40%).

Otherwise, VCs interest tends to be evenly spread between the other verticals, with the exception of the sectors that VCs see as the least promising - such as Industrial Automation (16.1%) and Frontier/deep tech (9.7%). This suggests that investment opportunities in LatAm are focused on factors other than any specific vertical, such as the untapped potential of the region itself or the strength management team behind a given company.

By all accounts, Fintech is far-and-away the hottest sector in the region: LAVCA data holds that 39% of capital and 30% of deals were in the Fintech sector. By comparison, E-commerce had 13% of deals and Ed-tech 6%, the sectors with the second and third most deals respectively (the amount of capital invested paints a similar picture).[16]

We can argue that the LatAm region still provides ample opportunities for entrepreneurs to launch businesses in a multitude of sectors and verticals. The research team expects fintech to remain as the prominent vertical for a few more years, especially in B2B and financial infrastructure, as there are still many opportunities to be leveraged. Nevertheless, we expect that the fintech lead will become less pronounced and other verticals to catch-up. We see particular potential in Agtech, given the region’s relevance for global agricultural output, as well as edtech and health due to the persistent inclusion gaps in these sectors throughout the region.

Figure 33 Main macro risks for LatAm VC activity over the next 5 years
What are the three main macro risks that could lead to an overall slowdown of VC activity in LatAm over the next 5 years? (Multiple choice, n=60)



16 https://www.lavca.org/industry-data/2022-lavca-trends-in-tech/#TOP-SECTORS

While VC investment sentiment is generally positive about the region, significant challenges remain (figure 33). Chief among those identified by VCs are the high-interest rates / inflation risk that are expected to bite post-pandemic (in LatAm because of its weaker currencies and overexposure to the stronger US dollar) and geopolitical factors (more recently conditioned by the conflicts in Eastern Europe). Both of these factors were identified as main macro risks by 65% of respondents.[17]

In the past 2 years, LatAm was experiencing a bull market fueled by low interest rates and high money flows due to the global pandemic. After a major monetary shock, the global economy is currently facing a market adjustment in the midst of an unexpected war that poses a scenario of uncertainty for world markets. As we can see, both conditions are directly related. As such, the particular geopolitical factors that could affect the stability of Latin American countries are global challenges, such as potential economic conflicts between two specific large economies. These challenges could also be more local risks, such as the risk of political change within a given country.

The next set of significant factors refers to risks to global markets (public market sentiment/ performance) as well as to risks within specific countries in LatAm (loss of competitiveness due to policy decisions), each selected by 50% respondents. The worry about global markets also confirms a certain degree of correlation between VC activity and the public markets: VC is all about the promise of future returns, and if these returns seem to be in danger (e.g. by a bear market) capital availability in alternative asset classes (such as VC) tends to go down.

The ranking of lack of talent also seems notable, since although it's not that high (27%) it is widely recognised as a challenge that VCs see affecting individual portfolio companies greatly (figure 19), and it's also a challenge that VCs can help with, as we cover in more detail in our adding value section. Nevertheless, this is a challenge that public policymakers and universities can do the most to help with by increasing the number of STEM graduates at regional universities. Latin America has incredible talent. This is being noticed by global companies which are installing their bases across the region as well as hiring remotely, a trend we expect to continue post pandemic.

Latin America has incredible talent. This is being noticed by global companies which are installing their bases across the region as well as hiring remotely, a trend we expect to continue post pandemic.

17 The survey took place before the Ukraine - Russia war broke out

EXPERT COLUMN

"There is a lot more potential in the LatAm ecosystem relative to other markets such as India, China, and Europe" - The LatAm ecosystem is still at the early stages.

If you go back a decade, Brazil represented more than 50% of the venture activity in the region. In more recent years there has been much more investment across the region with markets such as Mexico and Colombia catching up rapidly. Good examples are formerly exclusively Brazilian funds such as Monashees and Valor that are now looking for deals across the whole region. We would not have seen this a few years ago.

"There is no question in my view that you have an increase in activity across the entire region with unicorns being minted outside Brazil and Mexico"

In terms of sector trends, Andy is not surprised to see the "Future of Finance" up on top. Especially in financial services there is still ample opportunity for new businesses being built and we have an incredible track record in this sector, with success stories such as Nubank, Clip and Creditas. Other up and coming sectors are healthcare and Planet Positive, especially LatAm's prominence in the agriculture sector has the potential to convert the region into a hub for agtech innovation. **"We are starting to see a diversification of capital beyond only equity, especially as the availability of cheap equity might slow down"** - SVB launched 2 years ago their Latin American Growth Lending fund together with Partners for Growth and IDB. However, the deployment was a bit slower than anticipated, because there was so much equity financing available that founders preferred the more known option. Venture Debt in LatAm is still a new product and only a handful of entrepreneurs have experienced it so far.

"There is no doubt that over the last few years we have seen more players coming into the space and introducing new alternative products, but there is no question that we are still relatively light on venture debt financing."

ANDY TSAO
Managing Director Global Gateway SVB

General Recommendations

At Endeavor we have compiled a set of recommendations for what can be done to rise to the challenge of building an ecosystem that we can all be proud of. These recommendations come from both our own experience working within the ecosystem and the results of this study. They do not represent an action-plan, but are instead recommendations on how each of us individually - whether we are VCs, Entrepreneurs, or public-policy makers - can take to help propel the ecosystem to its next stages.

1. **Ensuring the right conditions for outlier entrepreneurs to reach their full potential is essential for further growth in Latin America,** especially in the more underserved geographies of the region that have not yet reached significant investment activity. **The multiplier effect from entrepreneurs making it big plays an overproportional role in ecosystem development and in getting the flywheel spinning** - Ecosystems with more outlier entrepreneurs attract more attention by venture capital and produce the necessary returns the asset class demands, which creates the seeding grounds for future generations of entrepreneurs and funds.

2. **We need to pave the way for more attractive and agile public offerings at regional stock exchanges**, avoiding that a listing on international stock exchanges remains the only go-to option for entrepreneurs. Exits and liquidity within the ecosystem have improved in recent years, yet there is still a considerable way to go. On a complimentary note, expanding corporate VC and M&A activities amongst startups can provide additional opportunities for liquidity in the industry.

3. **We have the opportunity to share and shape the ecosystem**, avoiding potential structural deficits we have experienced in more mature markets in terms of diversity, increased cost of living and inequality; the ecosystem is still young and there is a lot of potential to be leveraged. Smart public policy decisions on local and regional level - decisions that take all stakeholders into account - can ensure that the successes of top notch entrepreneurs, backed by venture capital, trickle down and benefit society as a whole. We have the chance to create more inclusion in Latin America through tech innovation.

4. **Diversity and ESG factors provide an attractive subject of future study** - In global venture, ecosystem diversity has historically been a central issue: elite founders and VCs have dominated the playing field. There might be similar indicators in LatAm that the ecosystem is not as accessible and democratic as it looks. Future research can shed light on this matter.

5 **We encourage more collaboration across countries and between the public and private sectors.** International investors see Latin America as one region, as such we have to think and act as one region on the ground to leverage its full potential. VC associations are a good start, but equally public policy actors and governments need to achieve more alignment in venture and ecosystem policy. Smart public policy can provide the seeding ground but ultimately ecosystems need to be self-sustaining to ensure lasting competitiveness.

6 **Latin America is still behind other regions in producing tech talent and IT engineers.** We need to keep up the pace in producing more university graduates in these fields to fuel the startups and VC firms of the future; the War for Talent will get more pronounced as more startups scale, universities and governments need to prepare for a changing labor market and plan ahead accordingly. Edtech players such as Platzi, Coderhouse, Crehana and Descomplica can help established universities to complement their offerings and bring digital skill sets to the masses which should help reduce the human capital gap in the region with low productivity levels.

7 **We recommend a future study to focus on the entrepreneur's perspective and what founders seek when tapping into the asset class.** This study has looked at the ecosystem through the lens of VCs, and we recommend future studies that can expand on this and look at other actors in the ecosystem, for example what founders seek in tapping into this asset class. This perspective could be extremely valuable for investors, ensuring that their value proposition fits the needs of the entrepreneurs.

Conclusion & Outlook

Throughout this in-depth study, we have analyzed the activities of Latin American VCs across their entire value chain: we have unpacked how funds source, analyze, evaluate and close deals; how they add value; and, ultimately, how they deliver on their performance. Our hope is that this research adds to the public discourse, providing investors and operators alike with insight, perspective and food for thought while they continue to double down on their initiatives and on the region itself.

Given that benchmarking is crucial to understand and reflect on one's own performance, we invite VCs and entrepreneurs to discuss these findings amongst themselves and with one another. Whilst this study cannot provide a complete perspective of the region, it is our hope that it provides a useful and insightful base-line and perspective of the ecosystem.

At Endeavor, our long term outlook for the LatAm ecosystem could not be more optimistic. It is still day one for the potential of the region and the impact that entrepreneurs and the VCs who back them can have. Certainly, we can expect 2022 to be more bumpy than the previous years of exceptional growth and momentum. It still remains to be seen how pronounced the correction will be for LatAm. For Q1 2022, Lavca data has shown only a minor slowdown of investment activity, however we can assume that Latin America has at least a 3 month time delay from the reality that entrepreneurs currently face in the US. It will be interesting to see how the region maneuvers its first significant correction, but we argue that the business fundamentals remain strong and the opportunity to leapfrog development in LatAm through tech has never been more evident.

In a broader context, we would like to emphasize that coordinated actions and alignment across different stakeholders is critical to reach this full potential; we must stop thinking in local or individualistic terms.

After all, LatAm is a region with incredible diversity, but only 1 language barrier and a shared history. Scale-ups build their businesses across the region, VCs invest regionally and players from abroad perceive the continent as one. We expect this regional identity to continue to build in the years to come as we increasingly carry out our lives digitally: communicating, buying, selling, transacting and ultimately interacting (in any form) within a digital space.

The region stands at an inflection point, and if we play our cards right we both can witness and play a part in a dramatic transformation and see the full potential of the region realized.

We see the space for many more research initiatives of this kind. To us, the most pressing initiative that could be taken would be to deep-dive on the founder's perspective. This study has been conducted through the lens of VC in LatAm. A future study could provide a mirror image to this and review the perspective of founders. This could be especially interesting when trying to understand what entrepreneurs value in the VCs they partner with and in the value-add that they can provide. Ultimately, each group needs the other to reach their full potential.

We also identify other research opportunities, for instance while our study provides an overview of the VC value-chain, a future research paper could deep-dive into any one of the stages along the process. For example, a paper could take a deep-dive into the different sources of deal-flow to examine their respective quality. Equally, a more in-depth examination or comparison of different regional ecosystems and how they are developing could be of use to public-policy entities.

Ultimately, for us at Endeavor the multiplier effect is the dominant source of sustainable ecosystem building: startups and entrepreneurs become lighthouses for the next generation as they continue to scale; successful funds - such as the KASZEKs and Monashees of the region - can act as beacons.. If/As this happens, we will see a continuously evolving startup ecosystem, transforming itself into one of the most dynamic regions globally.

Let’s keep on building. As Endeavor Entrepreneur Brian Requarth of Latitud would say:

¡Vamos LatAm!

Definition of Terms & Glossary

Startup: Companies founded no more than three years earlier.

C-level: Corporate level. Individuals who work at the highest levels of a company and constitute its core team (e.g. COO, CEO).

VC (Venture capital): Investment in businesses that have high growth potential. Venture capitalists (VCs) often provide expertise in finance and operations, in addition to capital.

CVC (Corporate Venture Capital): A form of Venture Capital, where the capital comes from large corporations. Because of this, it tends to have more emphasis on strategic aspects of a business than the financial aspects, unlike traditional VC.

LPs (Limited Partners): Investors in a Venture fund who are not involved in its operations.

GPs (General Partners): Partners of a Venture fund who are ultimately very influential on the investment decisions of a fund. Are members of the administration of the Venture firm and therefore have fiduciary responsibilities towards LPs.

Vintage year: The year in which the fund closes its investment round and begins to allocate its invested capital.

Unicorns: For the purposes of our study, we're defining unicorn companies as venture-backed companies that achieve a valuation of over $1bn USD.

ESG (Environment, Social and Governance factors): A set of criteria used to evaluate the extent to which companies work towards social goals that go beyond their profitability towards themselves and their corporations shareholders.

CAGR (Compound Annual Growth Rate): the average percentage of growth per year that a company achieves

Multiple of sales/earnings: The valuation of a company expressed as a multiple of its sales or earnings. Each industry normally has a benchmark multiple that is used as a reference when valuing a company.

Cash-on-cash multiple: A multiple. The amount of cash an investor expects to receive from an investment expressed as a multiple of the amount they paid in (e.g. 2x, 3x). Calculated by dividing the projected return by the original investment (both in cash).

NPV (Net-Present Value): A measurement used to calculate the current total value of an expected future stream of payments. It discounts future cash-flow by its distance from the present - the later the returns, the less they are valued.

Internal Rate of Return (IRR): A metric which factors in the time-value of money. More specifically, the IRR is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis. Venture investments tend to take place over a long time-period 8 - 10 years, and the IRR is a way of accounting for that.

Unit Economics: A business model's revenues and costs in relation to an individual unit. A unit is the fundamental, quantifiable entity that creates value for a business - it could be a ride sold for a rideshare app like Uber, or a car sold for a car dealership.

Churn (rate): Calculation that shows the number of customers leaving a service as a percentage of the total customers. This metric is particularly useful for subscription driven business, helping them to understand the proportion of customers leaving the company in a given timeframe.

Sales Margin: The amount of money that a company makes from selling a given product (the selling price minus the costs of producing that product)

NPS (Net Promoter Score): Customer loyalty and satisfaction measurement taken by asking customers how likely they are to recommend your product (from 1 to 10)

Runway: The amount of time (months, years, etc.) a company can survive with its current cash stock before running into difficulties

Working capital cycle: The time it takes to convert current assets and liabilities into cash. This could be bought stock for example, like a car for a car vending company or a phone for a technology company. The metric typically relates to physical products or hardware (as opposed to virtual ones or software).

In general, longer cycles mean tying up capital for a longer time without earning a return, so shorter cycles are preferred (as they allow your business to free up cash faster for other uses).

ARR (Annual Recurring Revenue): A metric that shows the money that comes in every year over the life of a subscription (or contract). It's often used for subscription based business-models

Term sheet: An agreement which outlines the terms of a deal between investors and founders. It's not legally binding.

Pro-rata rights: The right to continue investing in future financing rounds to maintain your % stake in a company. As more shares are issued, existing shares are diluted and pro-rata rights give the investor the ability to counteract that by reinvesting in that company through a follow-on investment on a pro-rata basis.

Dilution and Anti-dilution: Dilution is the reduction in ownership % of a party (founder, investor, employee), for instance due to an equity financing event. Anti-dilution protects investors from dilution in the event of a down-round or a stagnant round, normally by repricing their shares.

Weighted-average antidilution: An example of an anti-dilution provision. It reprices shares based on a (weighted) average of the price that the shares were bought at and the new price of the stock in a down-round.

Drag along: When facing a liquidation event, this provision allows major shareholders to force minority shareholders to accept the terms of the deal (exactly the same terms as the majority shareholder).

Tag along: Tag-along rights, also referred to as "co-sale rights", are used to protect a minority shareholder; if a majority shareholder sells his stake, it gives the minority shareholder the right to join the transaction and sell their stake.

They are different to drag-along rights in that minority shareholders have the right to participate, but do not have to.

Preferred stock: Stock issued to investors which has priority over common stock in a liquidation event. Any proceeds will be distributed to preferred stock holders before they are distributed to preferred stock holders, even if that leaves nothing for holders of common stock. Holders of preferred stock can convert to common stock if it's more profitable to do so.

Liquidation Preference: How much return the investor is guaranteed from a unit of preferred stock in a liquidation event (e.g. 1x investment, 2x investment, etc.).

Vesting: The amount of time over which an employee's (or founder's) right to acquire stock-options matures. It is tied to the amount of time that someone spends in the company and stock options are given periodically usually after a cliff period has passed.

(Employee) Options Pool: The proportion of the company allocated to employees of the company.

Redemption rights: The right to force a company buy-back your shares after a period of time if no attractive exit opportunities are realized

Registration rights: Registration are the contractual rights given to investors that give them the ability to force the company to register their shares on a public stock market. In effect, they can force a privately-held company to become a publicly-traded company.

Multiple on invested capital (MOIC): A multiple. It demonstrates the amount of money invested in a portfolio company against the new value of the VCs ownership, which might change as subsequent rounds drive changes in the valuation of the companies (and thus the invested capital). Can also be averaged to include all investments that a VC fund has made.

It demonstrates the amount of money returned vs the amount of money invested (e.g. 3x more money is returned than was invested)

Formula: Financial gain from an investment / Initial Investment amount (Note: the returns don't have to be realized, they can only exist on the books).

Distributions per Paid-In Capital (DPI): Returns realized by the LP. What separates DPI from other metrics (such as MOIC or IRR) is that it only takes into account the returns that have been given back to the LP; the returns are realized, and do not only exist on paper.

Formula: Capital distributed / Capital paid-in.

Net Total Value to Paid-In Capital (Net TVPI): A multiple, very similar to the MOIC. TVPI has more to do with realized returns, and so is used at the end of a fund's life, whereas MOIC is more of a projection used at the beginning of a fund's life when returns have not been fully realized.

Formula: Net Total Value of an investment (that will be returned to the LP) / the amount of capital the LP has paid-in.

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Produced by
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