PRIVATE EQUITY IN MEXICO
Primed for significant growth

By Antonio Martinez Leal and Pino del Sesto
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Private equity in Mexico: Primed for significant growth

Mexico is a nascent private equity (PE) market primed for strong growth. Yet it has been largely overlooked as an investment opportunity, even as private equity investors have flocked to establish positions in large emerging markets like India and China over the past 12 years.

In terms of funds raised and total deal value, Mexico has strained to keep up with activity in more popular markets, and PE penetration as a percentage of gross domestic product remains below levels in much of the developing world.

But the relatively low interest that investors have displayed masks the fact that PE investment in Mexico has grown substantially over the past 12 years. Since 2000, a total of $14.9 billion in capital has been committed to PE investments. And while the economic crisis severely crimped global PE activity, investment in Mexico has actually accelerated since 2008: The annual rate of fund-raising has increased nearly sixfold, to $2.9 billion, and the number of general partners active in the market more than doubled to 71 in 2012. Compounded annually, new fund-raising has grown 56% over the past four years vs. just 4% in Asia and 2% across the rest of the world (excluding Europe and North America).

Based on Bain & Company’s deep private equity experience in other emerging markets, our view is that Mexico is positioned for continued strong growth. The four key factors that affect PE penetration in a given market—economic foundation, deal flow, policy environment and commercial maturity—all suggest that Mexico is on a pronounced upward trajectory.

Although it continues to work through a number of regulatory and perception challenges, the market overall presents a fertile opportunity both for PE investors and the country itself. Experience has already shown that most Mexican companies backed by private equity investments have outperformed the market, growing revenues and adding jobs. And the injection of private capital can help accelerate Mexico’s economic growth overall.

Increasing PE activity in Mexico owes both to the country’s steady economic outlook and improving regulatory environment. One big catalyst was a rule change in 2009 that allowed domestic pension funds to invest up to 20% of their assets in private equity. Since then, they have played a key role, contributing a total of about $4 billion in fresh capital, half of it focused on the real estate sector. With reported total assets of $137 billion, according to the Emerging Markets Private Equity Association, these funds represent a large and growing pool of potential capital.

Outside investors have been attracted by the nation’s stability and growth potential. After years of economic volatility and turmoil in the 1990s, the Mexican economy has settled into a period of steady expansion. Public debt is low, inflation is tame at less than 4% and GDP is expected to keep growing annually in the 3% to 4% range, powered by strong exports and a growing domestic market. Demographic data suggests these trends will continue. Mexico’s labor force will increase by 10 million over the next 15 years, and middle-class households will almost double to approximately 18 million.
Mexico also has a number of structural advantages that enhance its position as a global trade partner, including a skilled, relatively low-cost labor pool and managerial talent that has a cultural affinity with the West. Geographically, it shares with the US one of the world’s most active borders and has both Atlantic and Pacific ports. It has forged 11 free trade agreements with 43 countries representing approximately 75% of global GDP and benefits from six preferential trade pacts.

Among investors, there is a perception that Mexico is dominated by a handful of very large companies, with a steep drop-off in size from there, raising concerns among some general partners that there aren’t enough targets worthy of investment. But a closer look at the nation’s industrial structure shows that there are 48,000 growth companies in the size range sought by private equity and venture funds. While the pool of medium- to large-sized targets is limited to around 7,000, only about 50 of those have attracted PE investment so far, meaning there are ample opportunities to find suitable candidates. The country has also developed an extensive support ecosystem to incubate new and growing companies.

The increasing maturity of Mexico’s economy points to a number of expanding foundational industries that offer unique growth stories, including education, healthcare, financial services, housing and auto parts. Companies that have already gotten PE support provide encouraging results. Nine of them, including Homex, Credito Real and Sports World, have gone public on the Mexican Stock Exchange since 2004, and a sample of successful investments shows an average 41% increase in annual revenues over four years and a tripling in the number of jobs.

Developing PE to its full potential in Mexico, however, will require addressing some key challenges. From a policy perspective, the country has made great strides when it comes to ease of doing business, providing strong investor protection and creating valuable tax incentives. The government has forged a regulatory framework favoring investments, including the rules allowing pensions to invest more freely and an important new set of bankruptcy laws aimed at facilitating real restructuring.

Based on Bain’s interviews with investors, however, there is a widespread perception that some regulations and policies still need work or are not enforced consistently, leading to confusion and the potential loss of value. Troublesome outcomes in the bankruptcies of Bufete Industrial and Mexicana de Aviación, for instance, tarnished the positive image that the bankruptcy laws had garnered through other cases that had better results for investors. Another example: CKDs, the investment vehicles used by pension funds, are widely viewed as useful, but in need of continued refinement.

Our interviews also revealed that foreign investors and domestic entrepreneurs share a lack of awareness concerning how much potential there is in working together. Mexico is simply off the radar for many general partners who are not always fully alert to how much the regulatory environment has improved in recent years. On the company side, owners and entrepreneurs tend to be wary of giving up equity, reluctant to enter partnerships and ill-informed about the track records of potential PE investors and the value proposition they can offer.
Despite these challenges, however, PE in Mexico continues to grow rapidly. And given the broader forces encouraging investment, the pressure is to the upside. If Mexico can match China’s PE penetration as a percentage of GDP over the next 12 years, a reasonably attainable goal, annual fund-raising would almost triple to around $6 billion.

For Mexican policy makers, the value of encouraging that growth is clear. To increase long-term GDP growth to a level of 5% annually, the country will need at least $30 billion per year in additional private investment. A robust private equity market could be a substantial contributor to that total and help maintain the sort of virtuous cycle of investment and growth that leads to benefits for all participants in an expanding economy.

Mexico has already made it clear that it is open for business. For general and limited partners seeking growth opportunities in a less-crowded market, it is worth another look.
Private equity (PE) is still nascent in Mexico but has grown significantly since 2000, as investors have committed $14.9 billion in new capital.

Encouraged by steady economic growth and favorable regulatory changes, annual fund-raising increased nearly sixfold between 2008 and 2012 as the number of active general partners more than doubled to 71.

The recent PE growth rate in Mexico has outpaced that in the rest of the world, albeit from a small base, and investments have increased steadily despite the recent economic crisis.

Government action permitting Mexican pension funds to invest has led to new commitments of $4 billion since 2009, mostly in real estate.

Activity is concentrated: 23 general partners have committed 80% of the capital and have favored midsize growth companies.

Four industry sectors have accounted for 60% of all investments: real estate, technology, telecom and media, financial services, and wholesale and retail trade.

There have been many success stories, including nine PE-backed IPOs on the Mexican Stock Exchange since 2004.

The benefits to local companies are clear: PE support has helped companies produce strong growth in both revenue and new jobs.

Yet PE penetration remains well below those in other emerging markets. As a percentage of GDP, fund-raising in Mexico is approximately 58% of average fund-raising in Russia, 40% of the average in Chile or Brazil and 32% of that in China. Mexico’s total deal value is also a fraction of the values in those countries.
Private equity investors in Mexico have committed a total of $14.9 billion in new capital since 2000...

Accumulated committed capital (US$ B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Committed</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.1</td>
</tr>
<tr>
<td>2003</td>
<td>1.2</td>
</tr>
<tr>
<td>2004</td>
<td>1.9</td>
</tr>
<tr>
<td>2006</td>
<td>4.3</td>
</tr>
<tr>
<td>2007</td>
<td>6.9</td>
</tr>
<tr>
<td>2008</td>
<td>7.4</td>
</tr>
<tr>
<td>2009</td>
<td>8.3</td>
</tr>
<tr>
<td>2010</td>
<td>10.5</td>
</tr>
<tr>
<td>2011</td>
<td>12.0</td>
</tr>
<tr>
<td>2012</td>
<td>14.9</td>
</tr>
</tbody>
</table>

Note: Capital committed before 2000 is not included

Number of GPs in the Mexican market

…and the annual pace of fund-raising grew six times since 2008 as the number of active general partners doubled

Total capital raised by year of fund-raising closing (US$ B)

<table>
<thead>
<tr>
<th>Year</th>
<th>Capital Raised</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>0.5</td>
</tr>
<tr>
<td>2009</td>
<td>0.9</td>
</tr>
<tr>
<td>2010</td>
<td>2.2</td>
</tr>
<tr>
<td>2011</td>
<td>1.5</td>
</tr>
<tr>
<td>2012</td>
<td>2.9</td>
</tr>
</tbody>
</table>

Note: Total capital raised equals capital committed per year

Source: AMEXCAP data; Bain analysis
On a global basis, Mexico’s fund-raising growth has been comparatively strong, even during the recent economic crisis.

Indexed PE fund-raising
(Base 2008)

Note: Includes only funds with final close, indexed using 2008 as a base 100
Sources: Preqin, Bain analysis

One key driver has been the participation of Mexican pension funds following a 2009 regulatory change allowing them to invest in PE.

Mexican pension funds (afores) have committed more than $4 billion in last 4 years

Pension funds committed to PE per year (US$ B)

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.3</td>
<td>1.7</td>
<td>0.5</td>
<td>1.4</td>
</tr>
</tbody>
</table>

Cumulative % of pension funds committed to PE: 0.6% 2.1% 2.3% 3.0%

Note: Amount committed to PE funds comes from the CKDs (structured equity securities). Numbers are cumulative
Sources: AMEXCAP and CONSAR

About 50% of pension fund capital has flown into real estate

Distribution of pension funds committed to PE in 2012 (US$ B)

Note: Includes only funds with final close, indexed using 2008 as a base 100
Sources: Preqin, Bain analysis

CAGR 2008–2012

- Mexico: 56%
- Rest of world: 2%
- Asia: 4%
- North America: 1%
- Europe: -1%
Since 2000, 23 general partners with funds topping $180 million have raised about 80% ($11.5 billion) of the total capital committed.

Investors have favored midsize growth companies and are open to both majority and minority stakes.

*Size based on revenues (in US $): very small ($2M–$5M), small ($5M–$20M), medium ($20M–$40M) and large ($40M+)*

Note: Total capital raised equals committed capital. Includes only funds with final closing year in 2000–2012 (total funds raised since fund inception)

Source: AMEXCAP data; Bain analysis
The number of investments has been climbing steadily each year, though exits have been choppier

**Investments compare positively with other markets...**

Indexed number of investments*

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>120</td>
<td>150</td>
<td>200</td>
<td>300</td>
</tr>
<tr>
<td>Rest of world</td>
<td>30</td>
<td>100</td>
<td>150</td>
<td>150</td>
</tr>
</tbody>
</table>

**Exits include three liquidations and one partial exit**

Indexed number of exits**

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico</td>
<td>200</td>
<td>100</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>Rest of world</td>
<td>150</td>
<td>100</td>
<td>100</td>
<td>50</td>
</tr>
</tbody>
</table>

*Investments: Number of transactions per year
**Exits include three liquidations and one partial exit
Sources: Dealogic; AMEXCAP; Bain analysis

Since 2001, four sectors have accounted for roughly 60% of all investments and exits...

Sources: AMEXCAP data; EMPEA; Dealogic; Bain analysis
…and strategic buyers have provided the most exits (though they are under-represented vs. other regions)

Exits by channel

- **Mexico (2001–2012)**
  - Sponsor-to-sponsor: 48 exits
  - Strategic: 2,370 exits
  - Shareholders/recap: 767 exits
  - IPO: 8,540 exits

- **Asia-Pacific (2005–2012)**

Sources: AMEXCAP data; EMPEA; Dealogic; Bain analysis

There have been many PE success stories over the past decade in Mexico…

- **Homex**
  - 2002–2008: Multiplied investment ~17X (~60% CAGR)
  - Presence growth: From 10 to 34 cities
  - >1M people in Mexico live in a Homex house

- **Arabela**
  - 1991–2007: Multiplied investment ~36X (~25% CAGR)
  - Generated >115,000 new jobs

- **Kendrick**
  - 2005–2008: Multiplied investment ~4X (~50% CAGR)
  - Developed a national information and sales system
  - Strategic expansion to private sector aiming for sustainable growth

- **Cinemex**
  - 2002–2004: Multiplied investment ~5X (~128% CAGR)

Sources: Fondo de Fondo; Corporación Mexicana de Inversiones de Capital; Carlyle Group; Bain analysis
...and since 2004, PE-backed companies have launched nine initial public offerings on the Mexican Stock Exchange.

PE support has led to strong revenue and job growth at companies taking on new investments.

Revenue CAGR over the holding period (sample of successful investments)

- Company A: 73% over 2 years
- Company B: 51% over 5 years
- Company C: 41% over 7 years
- Company D: 30% over 4 years
- Company E: 23% over 4 years
- Company F: 22% over 4 years
- Company G: 17% over 7 years
- Company H: 15% over 2 years
- Company I: 11% over 3 years

Cumulated jobs before and after PE support (average holding period of 4 years; K employees)

- Before PE support: 47
- At end of PE support: 137

~4X in 4 years
Average = 41%

Sources: KPMG-AMEXCAP Impact Research Study (sample of successful investments made between 2000 and 2009)
Private equity penetration in Mexico remains well below other emerging markets, both in terms of funds raised and total deal value.

**Funds raised as a percentage of GDP**  
(Average 2006–2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>0.0</th>
<th>0.2</th>
<th>0.4</th>
<th>0.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>0.49</td>
<td>0.20</td>
<td>0.16</td>
<td>0.15</td>
</tr>
<tr>
<td>China</td>
<td>0.11</td>
<td>0.06</td>
<td>0.05</td>
<td>0.04</td>
</tr>
<tr>
<td>Chile</td>
<td>0.15</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Brazil</td>
<td>0.13</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Russia</td>
<td>0.13</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Mexico</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Colombia</td>
<td>0.35</td>
<td>0.15</td>
<td>0.15</td>
<td>0.15</td>
</tr>
<tr>
<td>Turkey</td>
<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
</tbody>
</table>

**Deal value as a percentage of GDP**  
(Average 2006–2010)

<table>
<thead>
<tr>
<th>Country</th>
<th>0.0</th>
<th>0.2</th>
<th>0.4</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>0.49</td>
<td>0.20</td>
<td>0.16</td>
<td>0.15</td>
</tr>
<tr>
<td>China</td>
<td>0.11</td>
<td>0.06</td>
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<tr>
<td>Brazil</td>
<td>0.13</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
<tr>
<td>Russia</td>
<td>0.13</td>
<td>0.05</td>
<td>0.05</td>
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<tr>
<td>Mexico</td>
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<td>0.04</td>
<td>0.05</td>
<td>0.05</td>
<td>0.05</td>
</tr>
</tbody>
</table>

Sources: Preqin; Dealogic; Capital IQ; Bain analysis
Based on Bain’s deep global experience, Mexico meets four key factors for private equity growth: a strong economic foundation, ample deal flow, an effective regulatory framework and growing commercial maturity.

Mexico’s economy is stable, buttressed by steady GDP growth, low levels of public debt and tame inflation. Exports are booming, driven by an abundance of skilled, low-cost labor and preferential access to foreign markets, including the US.

The domestic market is expanding steadily and will benefit over the next 15 years as the labor force grows by 10 million people and the middle class doubles to approximately 18 million households.

Mexico’s growth and development present unique opportunities in several key industries: healthcare, financial services, automotive parts, housing and education.

Mexican companies are predominantly small. But there are 48,000 in the size range sought by private equity and venture funds. Of the roughly 7,000 medium- to large-sized growth companies, PE funds have invested in only 50.

From a policy and regulatory standpoint, the business environment in Mexico is rapidly improving. By most measures—from ease of doing business to taxation—it performs better than the BRIC countries: Brazil, Russia, India and China.

2. The market:
Primed for strong PE growth
Mexico’s steady growth, manageable debt and moderate inflation add up to a stable macroeconomic environment

Sources: Economist Intelligence Unit; Banco de México; CONAPO

Exports are booming, driven by advantageous market access and a skilled, low-cost labor force

Sources: US Census Bureau; Mexico’s “Secretaria Exterior”; Bain analysis

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Annual growth rate

<table>
<thead>
<tr>
<th>Year</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate</td>
<td>-8.2%</td>
<td>5.8%</td>
<td>7.9%</td>
<td></td>
</tr>
</tbody>
</table>

Country of origin of US imports [US$ B]

<table>
<thead>
<tr>
<th>Year</th>
<th>Mexico</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>0.00%</td>
<td>2.5%</td>
</tr>
<tr>
<td>2005</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2006</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2007</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2008</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
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<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2010</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
<tr>
<td>2011</td>
<td>3.0%</td>
<td>22.0%</td>
</tr>
</tbody>
</table>

CAGR 04-09 CAGR 09-11

Mexico 3% 16%
China 2.5% 22%

Sources: US Census Bureau, Mexico’s “Secretaria Exterior”; Bain analysis
Consumer activity and private investment are both strong and growing…

![Private consumption](chart1)

**Private consumption**

Annual growth rate

Annual growth rate

![Gross fixed capital formation](chart2)

**Gross fixed capital formation**

Annual growth rate

Sources: Economist Intelligence Unit; Banco de México; CONAPO

…and that should continue, given an expanding labor force and a rapidly developing middle class

![Labor force](chart3)

**Labor force will increase by ~10M**

Mexico’s population by segment

(Millions of people)

![Middle-class households](chart4)

**Middle-class households will almost double**

Households by socioeconomic level

(Millions of households)

Sources: CONAPO; World Bank
All in all, the Mexican economy is maturing, with spending on the rise in education and health…

Sources: Marketline: Automotive Manufacturing in Mexico; Bain analysis

...as housing demand and manufacturing exports grow

Sources: Marketline: Automotive Manufacturing in Mexico; Bain analysis
This maturing economy will provide PE investors with unique growth prospects across an important set of industries.

For example:

<table>
<thead>
<tr>
<th>Industry</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education</strong></td>
<td>• Education centers located in fast-growing midsize cities&lt;br&gt;• Low-cost education offering targeted to the middle class</td>
</tr>
<tr>
<td><strong>Healthcare</strong></td>
<td>• Basic and advanced healthcare infrastructure&lt;br&gt;• Low-cost basic medicines; nursing homes</td>
</tr>
<tr>
<td><strong>Financial services</strong></td>
<td>• Insurance and investment products (e.g., healthcare, life, retirement)&lt;br&gt;• Credit offering and products leveraging low-cost channels</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>• Housing products, driven by higher per capita GDP, middle-class growth&lt;br&gt;• Shift in population need and wants, increase the demand for apartments</td>
</tr>
<tr>
<td><strong>Automotive parts industry</strong></td>
<td>• Rollup of small companies, as market is highly fragmented ~1,000 firms&lt;br&gt;• Capital injection, as main source of financing is shrinking</td>
</tr>
</tbody>
</table>

Sources: INA; Bain analysis

PE investors could take advantage of the opportunities in these industries

Mexico has approximately 48,000 companies in the size range sought by PE and venture funds...

Companies by revenue size (thousands of companies)

Out of the approximately 7,000 midsize or large companies potentially suitable for growth strategy, PE funds have invested in only about 50.

There is an opportunity for VCs to invest in some of the approximately 20K small companies and grow them into midsize companies fueled by innovation.

Sources: INEGI Economic Census 2009; Bain analysis
...and a growing ecosystem in which to incubate new companies

**Business incubators**
- The National Incubators Program created in 2012
  - ~50 new business units, for a total of ~500 incubators spread across 190 cities in Mexico
- Several types of institutions incubate new companies:
  - Government agencies
  - Technological centers
  - State and private universities
  - Foreign universities and centers
  - Local incubators

**Public programs**
- **Mexico Emprende** Centers
  - Provide subsidized training and advice
- **Technological Innovation Fund**
  - Finances technology enterprises

Source: Bain analysis
3.

Future trends:
Opportunity tempered by key challenges

- Private equity investors still face several key challenges.
- Though regulatory policies, including a strong set of bankruptcy laws, are well founded, they are not always clearly enforced, leading to uncertainty. Several important fiscal reforms have been discussed but not yet implemented, further clouding decision making.
- Investors and companies face a communication gap. Foreign sources of capital are not always fully aware of the progress being made in Mexico, and local entrepreneurs remain wary of accepting outside investment.
- Conditions remain favorable for continued growth. If Mexico can boost its fund-raising to the level of China’s as a percentage of GDP—a modest goal—the annual total of capital available for PE investments would almost triple over the next 12 years to $5.9 billion.
- The increased private investment would have substantial benefits for the Mexican economy, helping boost GDP growth toward a 5% annual rate, increasing jobs and accelerating performance among the nation’s burgeoning set of entrepreneurial companies.
Mexico boasts an improving business and regulatory environment that compares favorably to that of other large developing nations.

Education level, investor protection and tax incentives are improving…

<table>
<thead>
<tr>
<th>Mexico rank</th>
<th>BRIC rank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ease of doing business</strong></td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td>Mexico's values 2012</td>
<td>2008 2012</td>
</tr>
<tr>
<td>63</td>
<td>62* 53</td>
</tr>
<tr>
<td><strong>Human and social environment</strong></td>
<td><strong>Russia</strong></td>
</tr>
<tr>
<td>48</td>
<td>74 73</td>
</tr>
<tr>
<td><strong>Investor protection and corporate governance</strong></td>
<td><strong>India</strong></td>
</tr>
<tr>
<td>57</td>
<td>63 61</td>
</tr>
<tr>
<td><strong>Taxation</strong></td>
<td><strong>China</strong></td>
</tr>
<tr>
<td>79</td>
<td>67 57</td>
</tr>
</tbody>
</table>

...and are mostly better than in the BRIC countries

<table>
<thead>
<tr>
<th><strong>Brazil</strong></th>
<th><strong>Russia</strong></th>
<th><strong>India</strong></th>
<th><strong>China</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>122 128</td>
<td>106 118</td>
<td>120 132</td>
<td>83 91</td>
</tr>
<tr>
<td>88 77</td>
<td>73 95</td>
<td>47 52</td>
<td>52 54</td>
</tr>
<tr>
<td>70 73</td>
<td>74 90</td>
<td>44 51</td>
<td>54 48</td>
</tr>
<tr>
<td>51 74</td>
<td>53 65</td>
<td>100 97</td>
<td>81 27</td>
</tr>
</tbody>
</table>

*Data from 2006
Sources: Economist Intelligence Unit; Dealogic; EIU; CapitalIQ; Global PE/VC attractiveness index; Bain analysis

Some key challenges still need to be addressed

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Identified issues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Clearly enforce regulations and policies</td>
<td>• As illustrated by the case of Mexicana de Aviación, <strong>law is not always applied to its full extent</strong>, leading to uncertainty among investors and undermining the value of improved regulatory framework in Mexico</td>
</tr>
<tr>
<td>Reduce uncertainty around changes to the fiscal regulation</td>
<td>• Over the past years several fiscal reforms have been discussed, <strong>making investors unsure about which changes the new government will implement</strong></td>
</tr>
<tr>
<td>Improve communication to key actors</td>
<td>• Foreign investors are not always fully aware of the policy improvements around investing implemented in Mexico in the past years</td>
</tr>
<tr>
<td>Improve vehicles available for pension funds to invest in PE</td>
<td>• Many entrepreneurs are not conscious of the benefits of PE investment</td>
</tr>
<tr>
<td></td>
<td>• <strong>CKDs</strong>, the investment vehicle currently used by pension funds, are now sub-optimal and need to be revised</td>
</tr>
</tbody>
</table>

Source: Bain analysis
Despite many examples of successful partnerships, local entrepreneurs remain skeptical of the PE value proposition.

PE firms have partnered with companies at different stages of their life cycles

<table>
<thead>
<tr>
<th>Stage</th>
<th>PE firms have partnered with companies at different stages of their life cycles</th>
<th>Entrepreneurs benefit in multiple forms from partnerships with investors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stage</td>
<td>Seed (e.g., Volaris)</td>
<td>✓ Alternative source of capital</td>
</tr>
<tr>
<td></td>
<td>Entrepreneur (e.g., Cinemex, Micel)</td>
<td>✓ Strategic direction and potential exit strategy</td>
</tr>
<tr>
<td>Mid-stage</td>
<td>Growth (e.g., Homex, Genomma Lab)</td>
<td>✓ Top talent</td>
</tr>
<tr>
<td>Late stage</td>
<td>Expansion (e.g., MM Cinemas, Kendrick)</td>
<td>✓ Extensive network of contacts</td>
</tr>
</tbody>
</table>

Entrepreneurs are still concerned about partnering, are not well informed about investors’ track records and fear losing company control.

Investors need to communicate to entrepreneurs that PE investments have historically led to substantially better performance.

Private equity disciplines...

1. Define the full potential
2. Develop the blueprint
3. Accelerate performance
4. Harness the talent
5. “Make equity sweat” (higher debt-to-equity ratio)
6. Foster a results-oriented mindset

...to create operating value

Company profit growth rate 2–4 years after PE investment (2-year CAGR)
China example

20%

![Graph showing company profit growth rate for listed firms and PE-backed companies with 17% for PE-backed companies and 8% for listed firms.]
If Mexico can match China’s PE penetration as a percent of GDP over the next 15 years, annual fund-raising would almost triple to $5.88 billion.

An increased PE contribution could help to generate the investment needed for Mexico to grow at a faster pace overall.

Sources: Economist Intelligence Unit; AMEXCAP; Bain analysis

Sources: CNBV; World Bank; INEGI; AMAI; Bain analysis; CEESP; Annual report Banco de Mexico and INEGI (BIE)
Key contacts in Bain’s Private Equity practice

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Antonio Martinez Leal is a partner with Bain & Company. Pino del Sesto is a principal with the firm. Both are in the Private Equity practice of Bain’s Mexico City office.
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