ARCAP

Asociación Argentina de
Capital Privado,
Emprendedor y Semilla

Argentina's Private Equity, Venture and Seed Capital

FOMIN
Multilateral Investment Fund
Member of the IDB Group

CAF BANCO DE DESARROLLO DE AMÉRICA LATINA

S&P Global Market Intelligence

IAE Business School – Universidad Austral

Contents

About **ARCAP**

The Argentine Association of Private Equity, Venture and Seed Capital (ARCAP) is a non-profit organization aimed at promoting the development of the Private Investment Industry in Argentina. It seeks to stimulate local investment in companies with high economic, social and environmental impact that can generate high-quality employment in the country.

Since its foundation in 2009 and its re launching in 2016, ARCAP's main goals have remained the same:

• Make contributions to the growth of Argentina's economic activity through the development of the Private Investment Industry and the country's insertion in international markets.

• Promote investments across different sectors in Argentina to help develop and grow the country's economy by creating and producing world-class goods and services.

• Create and distribute information tools about the news and activities of the Argentine industry in Argentina, and promote the generation of statistics and research on the contribution of these investments' contribution to the economy.

• Encourage the implementation of best practices with ethical and professional standards that facilitate the participation of foreign institutional investors in Argentina.

• Represent the industry and its stakeholders,players at local and international level, in business communities, among governmental authorities, the academic world, and the media.

ARCAP offers membership options for different industry stakeholders such as Investment firms, Family Offices, DFI's, Service Providers, Corporate Investors, Accelerators, and Angel Clubs and provides the following benefits:

• Qualified networking;

• Local, regional and global representation;

• Outstanding participation in ARCAP's digital channels;

• Inclusion in press and PR campaigns;

• Participation in the industry directory;

• Access to industry research studies such as publications and specialized documents;

• Access to discounts for ARCAP and ARCAP's partners events and education programs;

• Participation in frequent meetings with top industry stakeholders.

A Letter from the **ARCAP's President**

November, 2017

Dear Reader,

The development of innovative companies in our country is not a transient phenomenon. It is the result of the intense activity carried out by a **new generation of businessmen**—entrepreneurs—who think outside the box and use **new technologies and new business models to create companies that seek to solve multiple issues or deficiencies in both our country and the region.**

However, entrepreneurs are just one side of the coin. Because to enable startup companies to test their business models, grow, and develop at different levels, **funding is needed throughout all these stages.**

In that sense, the streamlining and growth of the investment ecosystem in Argentina **has become an essential factor to drive the creation of a virtuous circle of sustained growth in our country.**

In addition, we are extremely lucky to have **excellent human resources** available that, throughout several decades, have proven their ability to build **impactful and sustainable companies** with a regional—and sometimes global—outreach.

There are several examples of that included in this report, as well as testimonials from the founders of these companies, created in the late 90's and early 2000's, and which **today are found among the largest quality employment generators, creating opportunities across all social classes, and setting the example for the new generation** of businessmen.

It is important to remark that these new companies, supported by private funding and framed within the legal regulations necessary to facilitate their development, can become instrumental for increasing the overall productivity, consumption, and formal employment.

Similarly, the investors' activity **will become more dynamic if they find a clear economic policy that provides legal certainty and offers incentives aimed at such purposes.** The recently enacted Entrepreneurship Law No. 27,349 is a perfect example of this, as it offers plain and simple rules to create companies, **while at the same time it establishes incentives for the funding investors**, among other provisions.

Thus, at ARCAP, as part of our objective of develop the investment market in Argentina, by facilitating the arena so that more local investors decide to invest in the country, and attracting international investors with the opportunities offered by this new generation of companies, we considered **it was essential to generate proprietary and reliable information on the Private Investment market in Argentina.** Until now, this information was limited, scattered, and; therefore, impossible to access for assessing the market's evolution and making realty based decisions. This is the reason why **we decided to develop this report throughout this year.**

Although there is still much work to be done in terms of investments in companies created in our country, both in terms of transaction volumes and instruments' availability, t**he outlook is very promising.**

This higher predictability will attract local and international LPs to invest in local funds, and/or directly in companies that **have the potential of obtaining extraordinary returns while being innovative and impactful.**

In short, we believe that the future will belong to **determined investors willing to invest in companies that generate economic, social and environmental impact.**

Faithfully,

Marta Cruz,
President

Methodology

This report provides an overview of historical trends in fundraising and investment among Private Equity (PE) funds investing in Argentina, including Venture Capital (VC) and other types of early stage investment. Most of the statistical data included in this report is based on the S&P Global Market Intelligence's database of funds and transactions. All data sets are based on information gathered from websites, press releases and trade publications of relevant firms, as well as from communications established with industry stakeholders. The overview covers the period ranging from January 1989 to December 2016.

The private equity activity reflected in this report is mainly from several investment firms, each of them with their own set of goals, preferences, and investment strategies. All of them have provided working capital to target companies, contributing to their expansion, new product developments, or the restructuring of their operations, management, or capitalization table. Among the most common investment strategies in private equity transactions, two main classifications are worth highlighting. On the one hand, Private Equity Firms, typically involved in buyout transactions, by seeking significant equity stake in an existing or mature company. On the other hand, Venture Capital firms, by means of which investors usually invest in young emerging companies (startups), through incubation/acceleration services, seed funding, or growth capital transactions, and, rarely acquiring a majority interest.

The Total Deal Value chart included in the report reflects the total equity amounts for transactions in which financial details have been reported.

The statuses of three main firm are shown in this report to reflect the evolution of private equity and its current situation in Argentina. In conjunction with S&P Global Market Intelligence, ARCAP breaks down firms according to their status as to Active, No Longer Investing and Out-of-Business (OOB). "Active" refers to firms in operation and fully committed to their investment standpoint, in search of new business opportunities. "No Longer Investing" refers to firms that are not incorporating additional companies to their portfolios, but are still actively managing their current investments. Finally, "OOB" refers to any firm that has been completely liquidated and/or has ceased operations permanently. The "OOB" status has been determined as per information from public disclosures and, in certain cases, on proprietary S&P Global Market Intelligence's criteria and methodology, validated by ARCAP.

The charts showing Deal Volume and Deal Value per year in Argentina have been defined considering the type of investor—in terms of their preferred investment stage—involved in the buy side of the transaction. Fundraising totals reported herein reflect only official closing numbers (interim and/or final), as disclosed by public sources and by the firms themselves. Capital commitments accrued prior to official closing numbers are not included.

The Total Deal Value chart included in the report reflects the total equity amounts for transactions in which financial details have been reported. In the case of both fundraising and investment data, the amounts have been verified through sources available at the S&P Global Market Intelligence platform. Any discrepancies between the aggregate statistics published by ARCAP together with S&P Global Market Intelligence and the constituent data files may be attributed to confidential information omitted from public reporting.

The classification provided by S&P Global Market Intelligence industry is based on both the S&P/MSCI Global Industry Classification System (GICS) and the S&P Global proprietary classification, to expand the GICS and achieve greater granularity. GICS is the global standard for classifying companies into sectors and industries. It was developed to address the need of a global financial community for a single, complete and consistent global set of sector and industry definitions, thereby enabling asset owners, asset managers, and investment research specialists to make seamless company, sector and industry comparisons across countries and regions.

We are constantly striving to gather as much information as possible to better reflect the current situation of the PE/VC industry in Argentina, thus our data may undergo adjustments year over year. This is due to several factors, and the most significant one is related to the increased availability of public information over time, that is why we are continuously adding historical data on investments and capital raised from funds we had no record before.

The statistics included under the Seed section of this report were produced by the Latin American Observatory of Entrepreneurial Financing (OLFE), Universidad Austral, based on a data set on the investors' seed activity within the entrepreneurial ecosystem in the country. In this case, by investors we mean accelerators, incubators, angel investors, angel clubs, and venture capital firms with seed funds, provided there is public information available on their activity, and/or data reported in commercial third-party's databases. Public information refers to databases / specific web platforms such as Crunchbase, AngelList, and other similar specialized sites, websites of relevant organizations, and public press releases. We have completed this information by means of telephone interviews. These data do not include nascent companies or small enterprises that have received private capital but keep such information strictly confidential. The Seed section also excludes Argentine startups that have raised funds abroad. Further details can be found in the corresponding chapter.

We constantly strive to gather as much information as possible.

Executive Summary

The development of the Private Equity and Venture Capital industry has a critical role in the emergence and growth of new companies; therefore, in the overall economic growth as they become sources of job creation, and it has proven to have a direct impact on economic development and poverty reduction. This report provides an overview of the trends in this industry, particularly, in Argentina, and its goal is to review the recent history and current situation of not only the Private Equity (PE) and Venture Capital (VC) industry, but also of other specific related arenas, such as Corporate Venture Capital (CVC), Impact Investment, Accelerators, Incubators, and Angel networks and clubs as the emerging actors in Seed Investment. The report also seeks to provide a brief overview of the recent developments in the legal and regulatory framework, as well as in policy-related initiatives in place, which are currently reshaping the sector.

The overview starts by introducing and analyzing summary statistics and trend patterns, which, in some cases, were collected specifically for this report. This is particularly valuable as access to, and validation of, relevant data remains an outstanding issue yet to be addressed, despite the significance of the PE / VC industry. In the case of this report, this challenge has been tackled with the joint efforts of ARCAP, S&P Market Intelligence, and the OLFE (Latin American Observatory of Entrepreneurial Financing). The report combines aggregate data with in-depth analysis of a selection of leading cases, such as the PE investment of Victoria Capital in Peñaflor and of Linzor Capital in Hoyts and the VC financing experience behind the growth of MercadoLibre, Globant, OLX, and Despegar, among other selected cases. Finally, the report also features the opinion of many key stakeholders, specifically interviewed for this document. Testimonies include renowned fund managers, accelerator managers, expert lawyers, and policy makers such as representatives of international development banks. Their testimonies further expand and enrich the various topics reviewed.

In terms of players and activity levels, we highlight key content that we further develop in this Report:

The following are some remarkable key topics, which shall be further developed throughout the report:

The development of the Private Equity and Venture Capital industry has a critical role in the emergence and growth of new companies.

• In the recent country's history, Argentina has experienced two major expansionary cycles in its overall investment activity. The first one of these expansionary cycles was the sound development of the PE industry that took place during the 1990's, but ended abruptly in 2001 as the country experienced one of its worst macroeconomic crisis. In the 15 years following the crisis, the investment activity by PE firms fluctuated back and forth but the sector has never fully recovered since then. The second expansionary investment cycle concerned the early-stage arena within the VC industry. It started around 2005/06, grew importantly after 2010, and reached its peak in 2014. This boom was also spiced by the raise of new early-stage investment and acceleration models.. Although this boom appeared to slow down in the following year (2015), the market's outlook brightened with the new administration that took office in December 2015. Since then, a number of policies have been implemented in the country, resulting in international attention and improved overall expectations from most local stakeholders.

• Currently, there are 31 active fund managers in Argentina. This total is comprised by 10 active firms specialized in PE, 3 hybrid investment firms involved in both early and mature stages—PE and VC stages—, 12 active private equity firms purely investing in VC stage, and 6 seed-stage funds, including incubators, accelerators, company builders, and micro-VCs. The number of fund administrators, or General Partners (GPs), have doubled in the last 10 years—in line with the positive trend mentioned above—and this growth has been concentrated in VC and seed funding, while PE funds are relatively stagnant. It is important to note, however, that direct investment in mature - stage companies is not necessarily aligned with said trend in PE funds, since only approximately twenty percent of sponsors raise funds, and the majority makes non-intermediated investments — run through balance sheets, a third company, or an alternative investment vehicle.

• Fundraising for PE and VC funds is collected mainly from foreign investors. Foreign participation represents nearly the totality of investments in the case of active PE funds and close to 70% when it comes to VC funds. The composition of these investors (also Limited Partners, or LPs), include foreign funds from funds, international development banks, endowments, and foundations. Development banks — such as Multilateral Investment Fund (MIF), Member of the IDB Group, IFC-World Bank, and CAF (Andean Corporation)—have also proven a critical market development role. The prevalence of foreign investors in fundraising explains to a large extent why trends in overall investment activity are still greatly influenced by the international state of affairs and by the ability of the local market to become globally competitive and attract international investors.

• Sectors traditionally chosen for PE investment have included consumer staples, infrastructure, oil and gas, renewable energy, mining, agribusiness, knowledge-based services, and financial services. VC has expanded to these sectors and many more, yet it still shows a great concentration around the information technology (which secures approximately half of the investments). The country's growing trend in smartphone penetration, high-speed Internet connectivity, and e-commerce penetration, create an exciting ground for entrepreneurs and VCs to thrive, and is highlighted by experts as a true opportunity for technology disruption in FinTech, AdTech, EduTech, E-health, Big Data/AI/Machine Learning, Cloud Services, IoT/ Smart Cities, Entertainment (Games, VR/AR, etc.) and e-commerce. Such disruptions are expected to have a huge impact in traditional sectors such as agriculture and education, among others.

• Over the last five years, a significant growth has been registered in terms of seed capital and early stage investments, in a variety of forms and shapes. The Corporate Venture Capital (CVC) sector is an example of this growth. CVC has witnessed a significant upturn in the last five years, accounting for 149 deals disclosed and an aggregate total value of approximately USD 22 million. Again, in this case, the highest peak was experienced in 2014, with more than 40 investments. Nonetheless, seed capital investors encompass a variety of business models and vehicles that combine investment with advice, support, and networking, to only name a few dimensions.

• Estimates for seed capital financing also show that the activity reached its peak in 2014, declined in the last three years, and is estimated to start a recovery period, and to reach at least 80 closed financing rounds during 2017 (accounting for more than USD 150 million). Estimates also suggest that nearly half of the financing rounds closed in the 2011-2017 period were led by accelerators. Seed funds also come from incubators (21% of total rounds), angel clubs (15%), and venture capital seed funds (13%). In terms of amounts, the average rounds reach nearly USD 50,000, but there is also significant variability, with a third of the rounds closing at, or below, USD 25,000, and another third of rounds closing at, or over, USD 165,000. Many of these rounds are closed using convertible notes or similar convertible agreements such as Simple Agreements for Future Equity or SAFEs.

A number of policies have been implemented in the country, resulting in international attention and improved overall expectations of most local players.

As to the environment for doing business in the country, such as concerning the regulatory and legal framework or the current policy agenda, the following aspects may be highlighted:

- As mentioned above, the new administration has been implementing several reforms that have already raised the expectations of local market stakeholders, and have attracted the international attention. These reforms are refreshing in a country that, due to the implementation of different measures, seemed to have deteriorated its investment environment throughout the 2002-2015 period.

- Among the reforms, the promulgation of the Entrepreneurship Law in April 2017 intends to create the conditions to continue developing the entrepreneurial finance market in the country and to attract seed and early-stage investments to tech-based Argentine startups.

- Other noteworthy regulatory changes are the simplification of the company incorporation process and the creation of a new special legal vehicle for startups. Other measures include several tax-exemptions for startup-related investments, the regulation of crowdfunding, the creation of a registry of startup capital-related institutions, and various provisions on the role of the national government in direct investment initiatives in these institutions.

- In what can be understood as a regional trend, the government is increasingly active in developing investment vehicles for entrepreneurial financing. The National Trust Fund for Entrepreneurial Capital (FONDCE), which was created within the framework of the previously mentioned Entrepreneurship Law, promotes tax incentives for investment in entrepreneurial ventures, early-stage loans, and other means of support for new business creation in Argentina. FONDCE is comprised by 10 funds, 40% of which account for public investment. The funds will have a minimum of USD 30 million each and will be run by private fund managers who will be responsible for selecting the projects to be invested.

- The government is also currently introducing a program to directly support accelerators, including non-refundable funds for operating expenses and funds to be used as co-investment in startups.

- The opinions of the market stakeholders expressed in this report generally agree with the view that the reform agenda of the current administration is rapidly improving the investment environment. While investors continue paying attention to potential political swings and fiscal variables as sources of risk, the overall positive perception is that measures are being taken towards easing the context for doing business in Argentina and enforcing a framework that guarantees the rule of law.

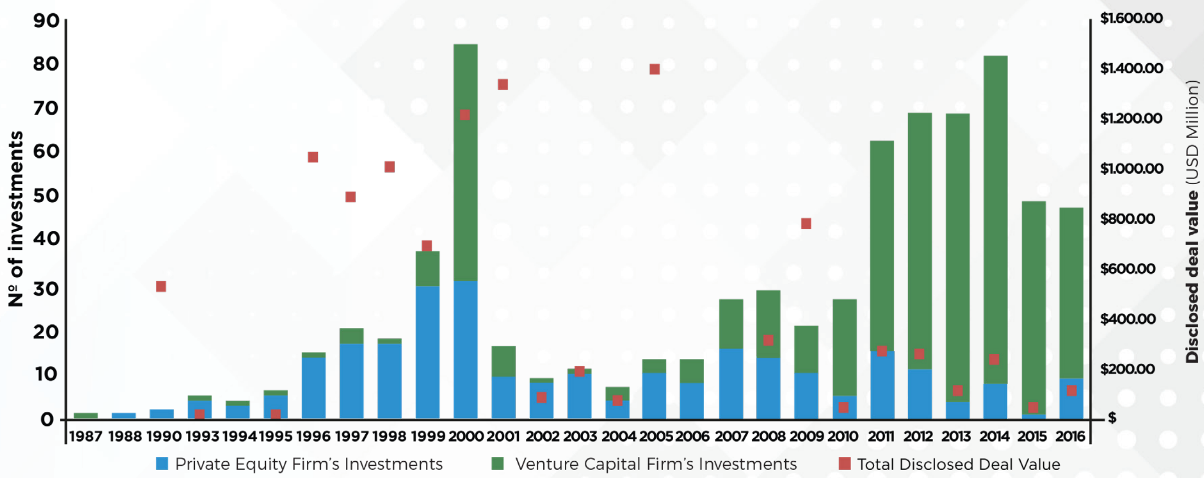
FONDCE is comprised by 10 funds.

Industry **Profile** and **Evolution**

In collaboration with Juan Savino, Partner at Altment Capital Partners

With more than twenty years of history, the Private Equity and Venture Capital industry in Latin America has shown several fluctuations along the way. Argentina has accompanied the regional growth throughout the first investment cycle (1995-2001), when the leveraged buyout model proliferated, and Venture Capital gained momentum fueled by the dot-com bubble (see Figure I). Then, it lost its strength in the last investment cycle (2006-2014), which was primarily led by Brazil and followed by the Andean countries and Mexico—while Argentina was slowing down the development of asset classes. Today, despite a more complex regional context, the PE/VC industry is re-emerging in Argentina, with many lessons learned and a strong determination to attract both foreign and local investors.

Private Capital Deal Volume & Deal Value (USD Million) in Argentina
(1987-2016)



*196 transactions with no disclosure date available have not been included

S&P Global
Market Intelligence

Figure I

After the 2015 presidential elections, the new administration started to address some of the most urgent issues to restore both foreign and local investors' confidence in the market. As a result, private equity managers and local groups have started actively to analyze opportunities in the country, and even some deals were closed by regional stakeholders. At that point in time, many critical steps are yet to be taken, but the consolidation of trust required establishing first some certainty about the outlook for implementing this new political agenda.

The Venture Capital Forum Argentina, an investment event hosted in Buenos Aires in September 2015, confirmed that many industry stakeholders were showing a renewed interest in the country's startup scene, even before the new government had been elected. With Argentina's return to the regional picture, a handful of VC managers are getting back into the market to take advantage of the momentum. Furthermore, the Entrepreneurship Law has created the necessary conditions to foster the development of the venture capital ecosystem in the country and to attract more seed and early-stage investments to Argentine tech startups.

According to S&P Global Market Intelligence, there are currently 31 active fund managers in Argentina. This total is comprised by 10 active firms specialized in mature investments (Private Equity), 3 hybrid firms involved in both early and mature stages (Private Equity and Venture Capital), 12 active private capital firms purely investing in venture stages, and 6 seed stage funds, including incubators, accelerators, company builders, and micro-VCs.

The number of General Partners (GPs)—managing the funds—have doubled in the last 10 years in Argentina, as shown in Figure III.

2017 Active Fund Managers in Argentina by Investment Stage

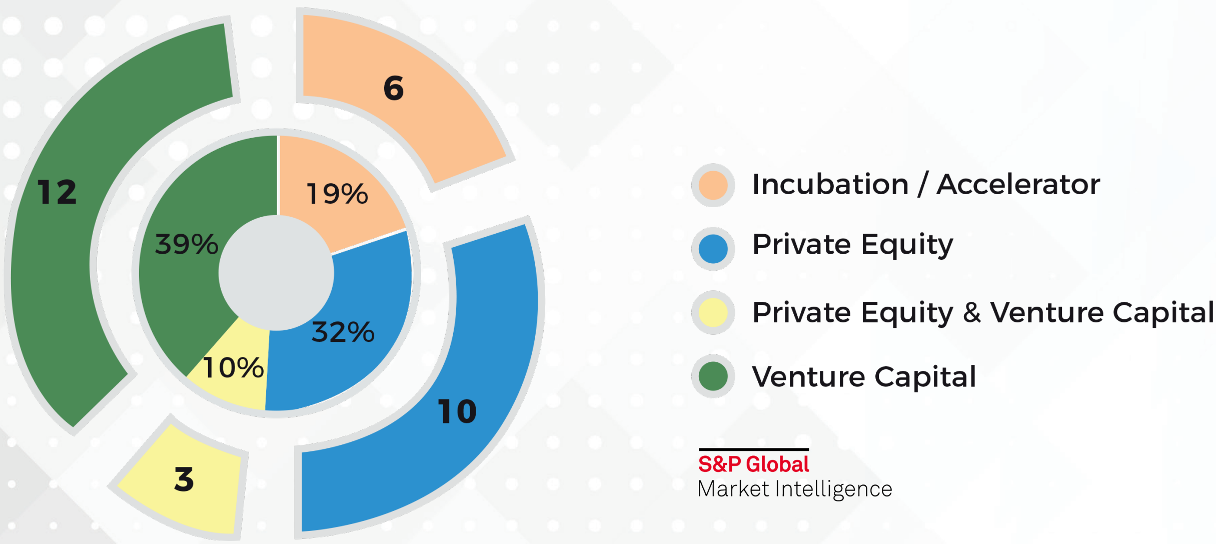


Figure II

Organic Growth Analysis
Private Capital Fund Managers in Argentina

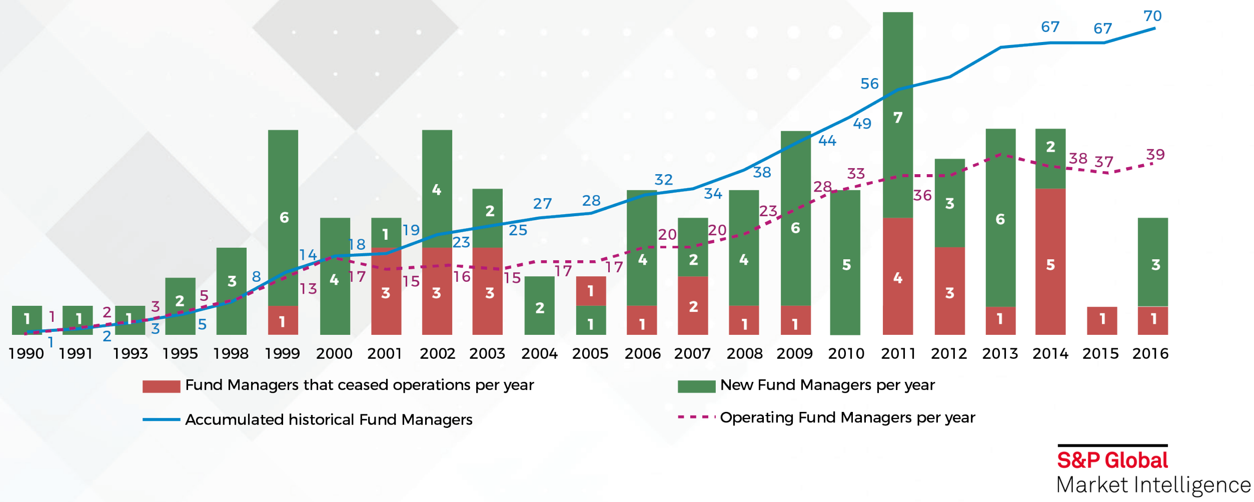


Figure III

Only within the Venture Capital arena, the number of GPs has increased by 3.6 times in 10 years, going from 7 in 2006 to 25 in 2016: 8 Incubators/ Accelerators and 17 Series A and B funds. In terms of Private Equity, the number of firms remained steady, with13 in 2006 and 14 in 2016, including in this group the hybrid firms (PE & VC). The graph as of 2017 is shown in Figure IV, and the in-and-out of business dynamics of each category over time is detailed in Figure V.

Figure IV: 2017 Argentine fund managers by status and investment stage.

2017 Argentinian Fund Managers by status and investment stage

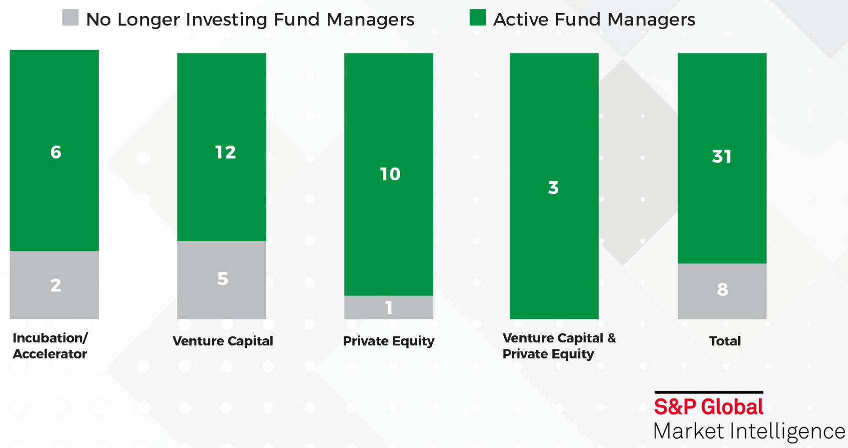
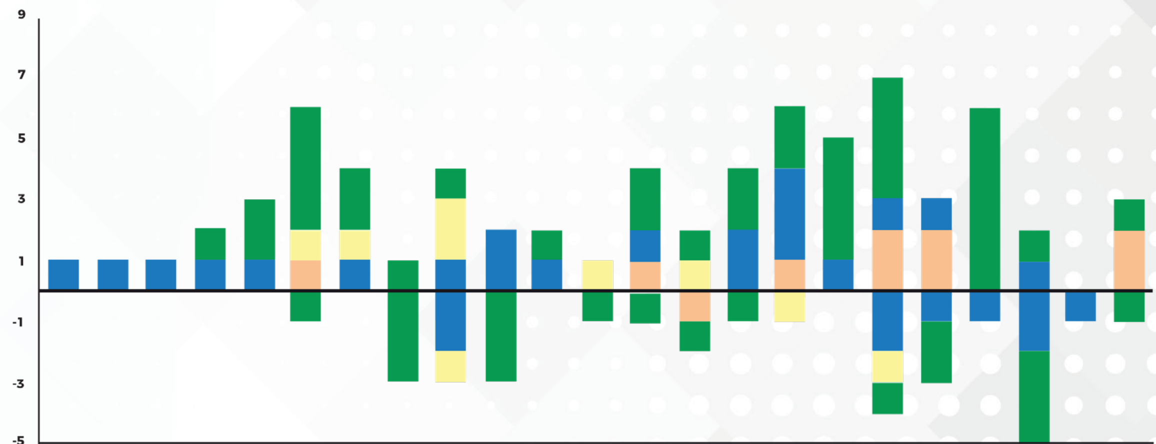


Figure IV

New and out-of-business Investment firms by investment stage per year - Argentina



	1990	1991	1993	1995	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Venture Capital				1	2	4	2	1	1		1		2	1	2	2	4	4		6	1	0	1
Venture Capital OOB						-1		-3		-3		-1	-1	-1	-1			-1	-2		-3		-1
Private Equity & Venture Capital						1	1		2			1		1									
Private Equity & Venture Capital OOB									-1							-1		-1					
Private Equity	1	1	1	1	1		1		1	2	1	0	1		2	3	1	1	1		1		
Private Equity OOB									-2									-2	-1	-1	-2	-1	
Incubation / Accelerator						1							1			1		2	2				2
Incubation `/ Accelerator OOB														-1									

* OOB stands for Out of Business. It refers to any Firm that has been completely liquidated and/or has ceased operations

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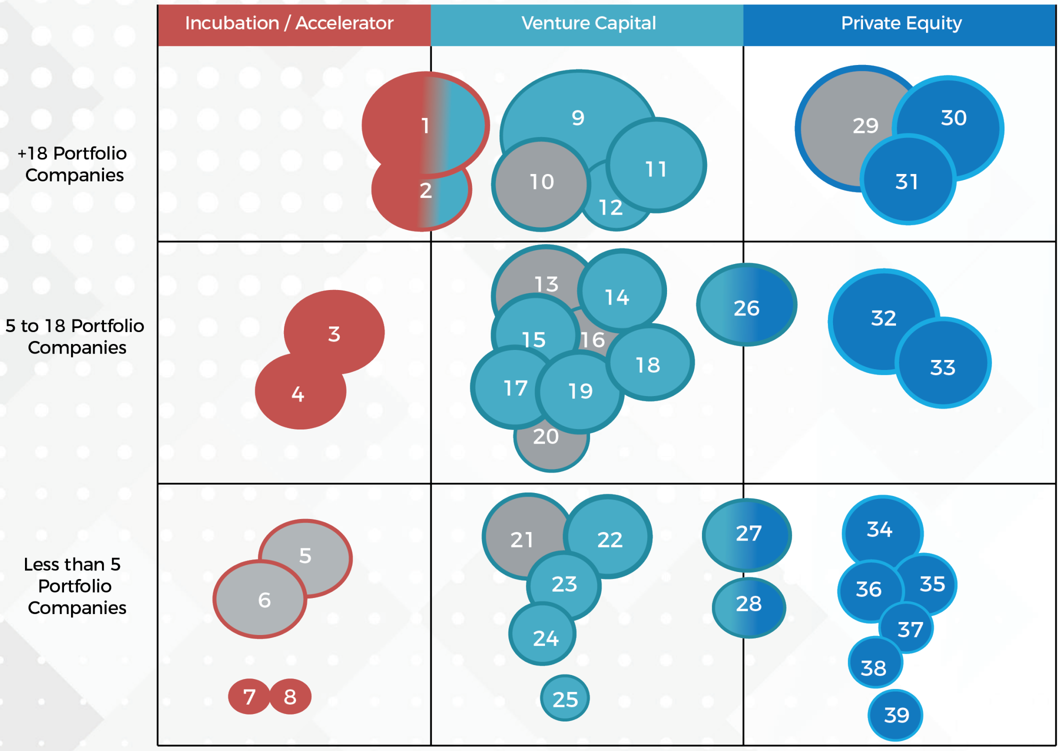
Figure V

The universe of firms operating in Argentina is quite diverse, not only in terms of focus but also in terms of size, as shown in Figure VI. About the Private Equity segment, 20% of the stakeholders have a portfolio of more than 18 companies. Another 20% have invested in 5 to 10 companies. The remaining 60% have less than 5 companies in their portfolio.

When it comes to Venture Capital funds, 20% of them have portfolios of more than 18 companies, while 40% run portfolios of 5 to18 companies. Unlike the Private Equity arena, only 20% of the VC firms in Argentina have invested in less than 5 companies.

Universe of fund managers with headquarters in Argentina by investment stage and portfolio size (current & prior investments)



1- NXTP Labs
2- Wayra
3- Incubatex S.A.
4- Eklos
5- Vrainz Accelerator
6- Quasar Ventures
7- InnovaTekne
8- Xpand Ventures

9- Kaszek Ventures
10- Nexo Emprendedor
11- Patagonia Ventures
12- Cygnus Capital
13- Modena Technologies Capital Partners
14- Primary Ventures S.A.
15- MELI Fund
16- Enzyme Venture Capital
17- CITES
18- CAP Ventures
19- AX Ventures SRL
20- Chrysalis Argentina S.A.
21- 54 Venrtures
22- ALAYA Bcapital Partners
23- Axia Ventures
24- Vivid Growth
25- ArFintech

26- Pegasus Capital
27- Capital para PyMes S.A.
28- Sur Capital Partners

29- The Exxel Group
30- Southern Cross Group
31- Victoria Capital Partners
32- Magna Capital
33- Integra Investment S.A.
34- Sophia Capital
35- Cono Sur Capital
36- Fénix Partners Private Equity
37-Humus Capital Partners LLC
38- Clara Capital S.A.
39- Caestta Equity

No Longer Investing*

*Firms that are neither incorporating additional portfolio companies nor planning fund raising in the short term, but that are still managing their current portfolios

Figure VI

Note to figure VI: There are additional key international stakeholders that are members of ARCAP's Board of Directors which are not shown in this graphic because their headquarters are not based in Argentina. Some of them are: Linzor Capital, Lexington Partners, and Advent International.

The re-launching of ARCAP in 2016 intended to be a milestone in the industry's development in Argentina, as one of its goals was helping to articulate all stakeholders to promote the country's economic development by fostering the above-mentioned types of investments. Given the ongoing debate on how to unlock the country's potential and competitiveness , the Private Equity and Venture Capital industry can play a pivotal role in the development of companies, encouraging job creation, and facilitating the development of strategic capabilities across other Latin American countries.

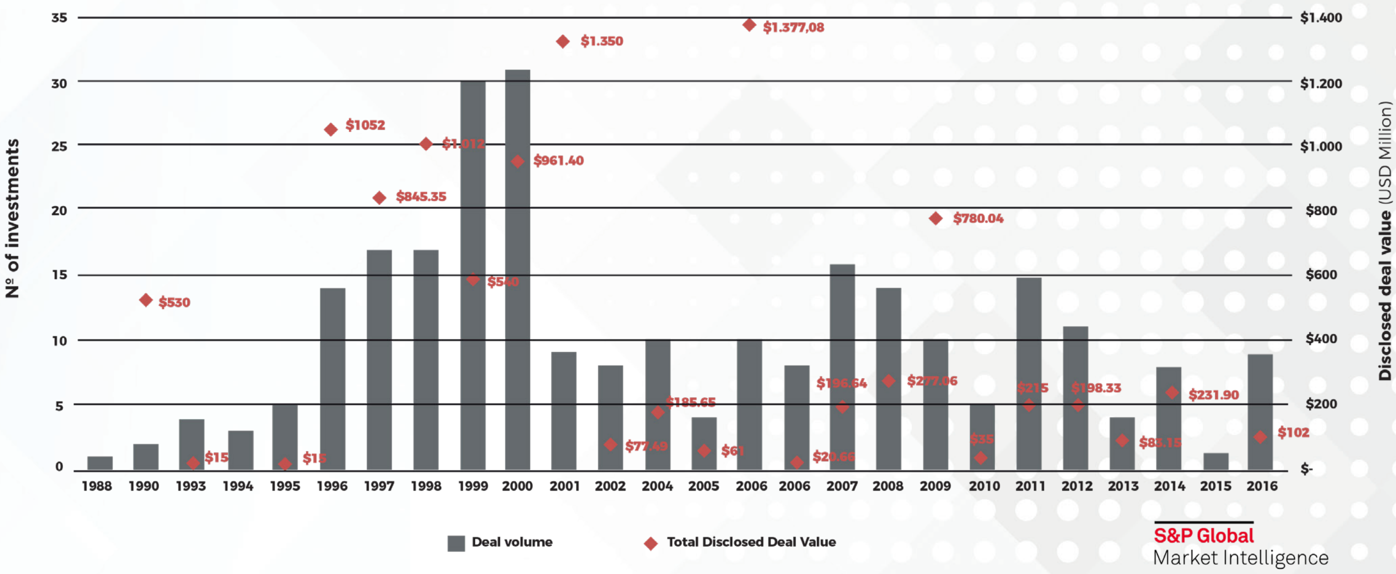
The First Investment Cycle

Latin America experienced its first cycle of Private Equity investments in the mid-90s, as shown in Figure VII. Fund managers focused on several simultaneous developments that created abundant opportunities to invest across the region. Governments were deregulating previously protected sectors of the economy; privatizations were underway in several countries, giving professional managers a chance to acquire and turn around poorly run state-owned enterprises; owners of many family businesses seemed ready to cash out or, at least, take on financial partners to finance expansion and growth as they began to face global competition; fragmented industries (i.e. retail, supermarkets) were ripe for consolidation. Eighteen new firms were created between 1990 and 2000. Six of them were Private Equity firms, 9 were Venture Capital funds, and only 1 of them was a Seed/Early Stage investment firm, as it has been previously shown in Figures IV and V.

Argentina kept a predominant role in this buyout-oriented period, becoming the second-largest recipient of private equity capital, with nearly USD 2.9 billion invested between 1996 and 1998[1]. The deregulation and opening of the Argentine economy within the framework of economic stability and growth, created the perfect opportunity for this investment approach. After the establishment of a couple of investments groups such as Grupo BISA, the Exxel Group Associates, and Bank of America, the country attracted new investors under the premise that Argentina had the right conditions for replicating the US buyout model at the local level. Other regional groups disembarked in the region later as the buyout model proliferated. This second group included Acon Investments, Advent International, Bankers Trusts, Blackstone, Chase Capital Partners, DLJ Merchant Banking, and AIG Capital Partners, among others.

This was a cycle strongly influenced by privatizations in Argentina and driven by debt-equity swap instruments. CEI (Citicorp Equity Investment) was a very active investor leading telecommunication transactions, the biggest PE market in Latin America at that time.

Private Equity Investments: Deal Volume & Deal Value (in USD Million) per year in Argentina



*104 transactions with no disclosure date available were nothave not been included

Figure VII

1- Asset Alternatives Inc. - Latin American Private Equity Review & Outlook, 2000/2001 Ed. (2001), p.47

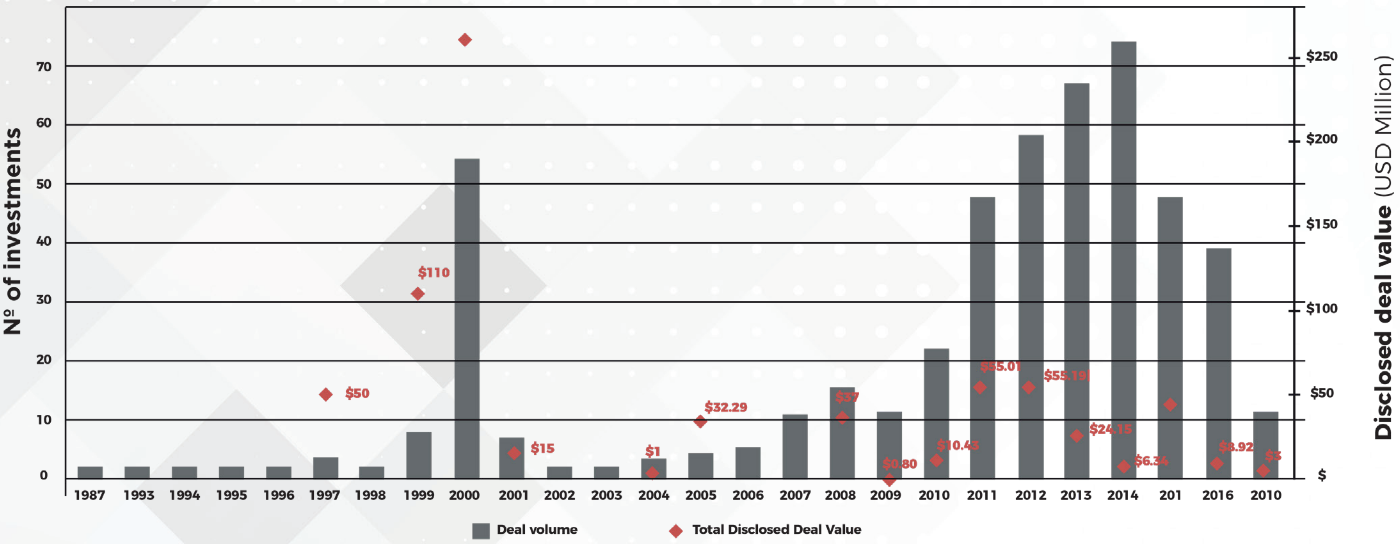
However, the growing instability in other emerging economies (in particular in the aftermath of the Russian default in 1998) raised questions amongst investors on committing additional capital to an industry and a region that had not developed as expected, especially considering the global context where the US economy was looking increasingly strong, in contrast with emerging markets, which appeared increasingly unstable.

In this adverse context, Argentina survived the downturn with the surge of Latin American Internet start-ups, which marked a turning point in the kind of funds that international investors were backing. As tech investing bubbled in the US, a handful of international and Latin American firms invested in Internet start-ups, stimulated by successful business models adjusted to Latin America and the prospects for exits in the IPO market, as shown in Figure VIII.

Initial transactions included Chase Capital Partners and Flatiron Partners backing Starmedia in 1997; Fiduc Group providing seed capital to Patagon.com, a financial portal and brokerage site; and Hicks, Muse, Tate & Furst funding the regional website El Sitio. Chase and Flatiron later invested in Patagon, as well as in other companies such as the sports site SportYA for Spanish speakers and the Argentine Mercado Libre. The early success of some of these deals—with the IPO of StarMedia in Nasdaq in May 1999—fueled venture-style equity investments in the region.

The second wave of venture capital investment did not replace the first one but instead created an additional flow of capital running parallel to the buyout activity. Even some private equity firms started to assess VC-style opportunities in the region and to consider new strategies seeking to leverage e-commerce opportunities for existing portfolio companies. Buyout firms like The Exxel Group backed LatinStocks.com, a financial website; Southern Cross Group invested in Argentine incubator South-Net S.A.; and Acon Investments together with Hicks, Muse, Tate & Furst invested in the online travel company Despegar.com, (which did its IPO in Nasdaq in 2017). Other private equity managers doing VC deals during this period included Newbridge Latin America, UBS Capital, GE Equity, and Banco Santander's PE arm BSCH Private Equity.

Venture Capital Investments: Deal Volume & Deal Value (In USD Million) per year in Argentina



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92 transactions with no disclosure date available were nothave not been included

**Q1 and Q2 2017

Figure VIII

The End of the First Wave

Both buyout and venture capital cycles came to an end in 2001, and many of these stakeholders began to shy away from raising new funds and making new investments as a result of a “perfect storm”: the Asian and Russian crises, the Brazilian ‘99 devaluation, the dot-com bubble, the Argentinian default crisis, and the Worker’s Party victory in Brazil in 2002.

Despite the adverse conditions for deal activity, some GPs continued investing in Argentina after the 2001 crisis. However, the value during this period was expected to come from debt restructuring and turnarounds rather than from growth and leverage, as seen during the previous decade. Deals included Southern Cross investment into the natural gas company Compañia General de Combustible; Pegasus acquisition of 100% of Musimundo, a music store chain once controlled by The Exxel Group; and Coinvest acquisition of mobile wireless service provider CTI Movil from Verizon and Blackston, among others. Yet, Venture Capital activity during the period 2001-2004 was very limited. As shown previously in Figure V, six investing firms ceased operations at that time. Moreover, Argentina was not the exception of the main concerns investors had regarding all emerging markets, where the path to profitability was not at sight.

The new investment cycle that started towards 2005/06, made industry analysts think that Argentina would continue to have the predominant role in the Latin American Private Equity market it had had during the previous decade. Expansionary policies and commodity exports triggered a rebound in GDP from 2003 onward and Argentina’s socio-economic situation had since then been steadily improving. Also, the impossibility of Argentine companies to access international financial markets due to the country’s debt default, made private equity very attractive as one of the few sources of capital available to help local companies grow.

At the same time, Private Equity in other Latin American markets —most notably, Brazil— experienced a rebound after 2005, fueled by significant GDP growth, an expanding middle class driving strong consumption levels, and a more stable political and economic environment compared to the previous decade.

This contributed to the renaissance of the Private Equity and Venture Capital in Argentina. The local entrepreneurial activity remained strong during this period, allowing local investors and Development Financial Institutions (DFIs) to back a new generation of VC managers. In 2008, there were 23 Venture Capital funds and angel networks in the country, including Aconcagua Ventures, Mark Ventures, CAP Ventures, AX Ventures, and Chrysalis, etc. among others.

That positive environment peaked when the first Venture Capital Forum took place in Buenos Aires in 2008, almost simultaneously with the first launch of ARCAP, with 40 members, including firms such as DLJ South American Partners (later Victoria Capital Partners), Linzor Capital, Advent International, Pegasus, Holdinvest, and CAP Ventures.

Investors, who had shifted their attention to the fast-growing emerging markets, continued expanding their alternative investment programs across the region. Capital committed to Latin America dedicated Private Equity and Venture Capital funds reached record levels in 2010 (USD 8.1 billion) and again in 2011 (USD 10.3 billion)[2].

The impossibility of Argentine companies to access international financial markets due to the country’s debt default, made private equity very attractive as one of the few sources of capital available.

Between 2008 and 2015, Argentina's main indicators captured by the LAVCA Scorecard worsened, falling to the last position of the ranking in terms of business environments for Private Equity and Venture Capital. An important event, the nationalization of the private pension fund system (worth USD 29 billion) in November 2008, hit investor confidence and shut down one of the main sources of domestic long-term capital. Local pension funds were amongst the largest institutional investors in Brazil, Mexico, Peru, and Colombia during this period, becoming key players in supporting the development of a strong pool of emerging Private Equity and Venture Capital managers, many of which are still in operation. This was missing in Argentina, at that time.

Despite the aforementioned environment of institutional uncertainty, Argentina produced numerous of successful Internet and tech companies. The initial listings of MercadoLibre (NASDAQ in 2007) and Globant (NYSE in 2014) kept the entrepreneurial environment in high spirits. In early 2010, the high turnover of VC managers focused in Argentine projects resulted in new groups being created. In the Venture Capital field, Kaszek can be mentioned as the regional VC player. In the seed area, NXTP Labs developed a regional Argentine-based strategy, with operations and partnerships in Chile, Colombia, Mexico, and Brazil. Finally, in the Corporate Venture Capital new era, Wayra, the Telefonica's tech accelerator, can be mentioned as the regional corporate initiative, along with Cites, Sancor Seguros Venture arm, a corporate venture focused on developing patent-based and biotechnology companies in the country.

Argentina has come a long way in private investment and has learned many lessons, and despite a more complex regional context, as of today, the country is determined to write a new investment era.

Argentina has come a long way in private investment and learned many lessons.

2- 2011 Scorecard, The Private Equity and Venture Capital Environment in Latin America, LAVCA

Introduction to Argentina's Regulatory Framework

In Collaboration with Alejandro Fiuza –Chairman at Latin America Practice Group, Partner at Brown Rudnick –, Diego Kriscautzky, Hernan Slemenson, and Fernando Vaquero, Partners at Marval, O'Farrell & Mairal

Many legal provisions apply to the incorporation, operation, capital deployment and allocation decisions of Private Equity, Venture and Seed Capital Funds in Argentina.

Fund's Incorporation Formation

Funds may be structured specifically to meet local requirements and receive funding from the public sector and/or qualify for certain local tax benefits or, on the other hand, such benefits and funding may be disregarded. Generally speaking, Funds may be incorporated (i) domestically, as a legal entity which can be a regular corporation, SA, a limited liability company, SLR, a simplified stock company (the SAS, a type recently enacted), a trust (fideicomiso), or (ii) as a branch or a subsidiary of a foreign legal entity. Domestic and foreign funds tend to follow a structure that resembles the traditional US and international fund structure of a limited partnership. In this model, the Fund is managed by a separate entity known as the GP—that stands for "General Partner," who is responsible and liable for the Fund's investment decisions and operations—and the investors—known as "limited partners"—who are passive and subscribe for equity or debt contributions issued by a separate vehicle, the "Fund." Depending on the goals pursued by the GP and the group of investors, these structures may be relatively simple or very complex. Cross-border Fund structures are usually tailored-made and require extensive knowledge of corporate, securities, tax, IP and Central Bank rules and regulations in Argentina and in other relevant jurisdictions.

Main rules and regulations to be considered

The main Argentine rules and regulations governing fund's incorporations are found in several bodies of law. Depending on whether the fund is private or publicly listed, any or all of the following, among others, may apply: (i) the Unified Civil and Commercial Code 2015 (including Section 1815), (ii) the Companies Act No. 19,550, as amended, and regulations issued by the Corporate Records Office (Inspección General de Justicia, IGJ), or other Public Registries with jurisdiction in controlling the incorporation of companies, (iii) the Capital Markets Law 26,831 and the Decree No. 1023/2013 thereunder, the Mutual Funds Law No. 24,083, and the regulations issued by the National Securities Commission CNV) related to any of the foregoing, (iv) the Negotiable Instruments Law No. 23,576, (v) special regulations, including the Financial Institutions Law and regulations issued by the Central Bank, (vi) the Bankruptcy Law No. 24,522, as amended, and (vii) the recently adopted Entrepreneurship Law No. 27,349, as further regulated by the Decree No. 711/2017 dated September 8th, 2017. Other relevant rules and regulations that may apply to investments or exit transactions, include, but are not limited to, antitrust regulations, media and telecommunication regulations, foreign land ownership and national security regulations, local permit-related regulations, etc.

Since December 2015, Argentina has abrogated most (if not all) currency control restrictions and regulations limiting the ability to make payments and transfer dividends and proceeds. Upon fulfilling with a series of reporting obligations, Argentine residents and foreign investors may now freely bring into Argentina, and transfer abroad foreign currency without being required to constitute any security deposit or seek any license or approval from any Argentine Governmental authority.

Regulations issued by the IGJ to control money laundering and tax evasion in the early 2000s imposed requirements which unintended result was to significantly delay corporate filings and red tape. The Entrepreneurship Law has attempted to cut through this red tape by setting up a separate form of business organization called the Simplified Stock Companies (SAS). The Entrepreneurship Law established, among other provisions, tax incentives for Argentine taxpayers investing in particular categories of startups, such as the possibility to deduct taxes up to certain percentages (75% or 85%) and subject to some limitations (up to 10% of taxable income). Also, it established certain requirements to be met by equity and equity-like contributions, such as ensuring the business to be invested has a maturity of 7 years, 50% of the employees registered in Argentina, founders/entrepreneurs keeping a controlling stake for up to 2 years, certain tax exemptions, etc., as well as they are subject to other obligations (such as registration and reporting) and general quantitative limitations. The Entrepreneurship Law also established the Venture Capital Development Trust Fund, FONDCE (*Fondo Fiduciario para el Desarrollo del Capital Emprendedor*). The FONDCE has already selected eight accelerators and three GPs of venture capital funds by open tender. Each venture capital fund will receive FONDCE equity contributions of up to 40% of their total equity. For further information, please refer to the following link: http://www.produccion.gob.ar/tramites/fondo-de-expansion-64395.

Institutional investors

The activity of institutional investors (such as ANSES, the Federal Social Security Agency, and insurance companies) is governed by specific rules and regulations. To-date, ANSES is not authorized to invest in private Funds and insurance companies may only invest in publicly traded and externally rated securities.

Simplified Stock Company

In addition to establishing provisions to regulate crowdfunding (subject to further regulation by the National Securities Commission (CNV)), the Entrepreneurship Law created the Simplified Stock Company, SAS (*Sociedad por Acciones Simplificada*). The SAS is a new type of legal entity which capital is divided into shares and the legal regime that applies to them differs at a great extent from the traditional one that applies to Corporations or to any other existing type of company.

Based on successful regional models such as the Colombian and Chilean ones, the SAS has been created as a very simple and flexible type of company and it is applicable to all kinds of business (except for those in regulated areas such as banking, insurance, etc.). We expect the SAS to gradually replace the standard corporations and the limited liability companies, as the default legal vehicle used to start a new business, given its flexibility, little red tape required, and the limited control exerted on them by regulatory authorities.

Its main features are:

- Limited liability up to the subscribed capital, although shareholders shall be jointly and severally liable vis-á-vis third parties in connection with such subscribed capital.
- It can be fully owned by a single shareholder.
- It may be set up digitally.
- It may have a broad legal purpose.
- Similarly, to the other existing company types, the financing of the capital to be subscribed cannot exceed two years;
- There are no residency or nationality requirements applicable to Directors or the management team, except for the fact that at least one of the Directors must be an Argentine resident. Foreign Directors must obtain their national tax ID number, but they will not be treated as Argentine residents in terms of tax regulations only because of having such tax ID;
- If the initial bylaws follow the government-approved model, the registration and granting of the Company tax ID will not exceed 48 hours as of the time of filing;

We expect the SAS to gradually replace the standard corporation and the limited liability companies as the default legal vehicle to start a new business because of its flexibility.

- There are various options when it comes to deciding what class of shares to issue, with different rights and subscription prices associated to each of them. This addresses the long-standing rigidity of our legal system which, until now, was not flexible enough to accommodate VC-type arrangements.

- Shares may be transferred but such transfers may be restricted for up to 10 years (and such term can be extended by the unanimous vote of the shareholders).

- Board and shareholders' meetings can be self-convened and they may be validly held through electronic means.

- Accounting records may be kept in electronic format.

- There is no need to file annual financial statements with the Public Registry of Commerce.

- Existing companies may be converted into SAS (if certain requirements are met).

While many of these features may not seem a novelty for the foreign investors, they are a major step forward for the Argentine corporate regime which had remained substantially intact since 1983, when the last major reform of the Companies Law took place. While at the time of writing this model is in its initial implementation stage (the first SASs were created after September 1, 2017), it definitely offers sufficient flexibility to structure new ventures in Argentina.

Protection of minority rights / Board members

The Argentine Companies Law, the Capital Markets Law and the regulations thereunder, and now the Entrepreneurship Law provide for the protection of various minority rights applicable to private and public companies (e.g., statutory preemptive rights, rights in the context of a tender offer, appraisal remedies in the event of a merger, information rights for some shareholders, etc.). Additionally, companies are required to file audited financial statements and to comply with a series of reporting obligations. Likewise, public companies are required to meet corporate governance requirements as set forth by the Argentine National Securities Commission and the rules of the stock exchange market where they operate. In general, the enforceability of transfer restrictions in Argentina depends on the form of business organization chosen by the parties involved and on the jurisdiction of incorporation. The Argentine Companies Law requires corporations and limited liability companies exceeding an equity threshold of ARS 10 million to hold at least quarterly Board Meetings, appoint statutory auditors, and hold at least one annual Shareholders' Meeting.

While many of these features may not seem a novelty for the foreign investors, they are a major step forward for the Argentine corporate regime which had remained substantially intact since 1983.

While enforcement is not as widespread as in other jurisdictions, in certain cases, board members may be personally liable to shareholders and to third parties.

Insolvency

The Bankruptcy Law is a federal regulation and provides for court and out-of-court reorganization proceedings and for court-supervised and trustee-administered bankruptcy liquidation proceedings. The role of the creditor committee in liquidation proceedings is limited. The regulation provides for piercing-the-corporate-veil, bankruptcy consolidation, tax avoidance, and other antifraud remedies (limited precedents exist in employment and tax related-cases). Generally speaking, the law establishes a preference for employees and tax creditors over secured and unsecured creditors.

Exits

At the time of writing, there is a bill under consideration by the Congress to amend the Capital Markets Law, and the Argentine National Securities Commission has proposed additional regulatory amendments to the Securities Laws with the purpose of revamping Argentina's capital markets.

Overview of the Fundraising Activity in Argentina

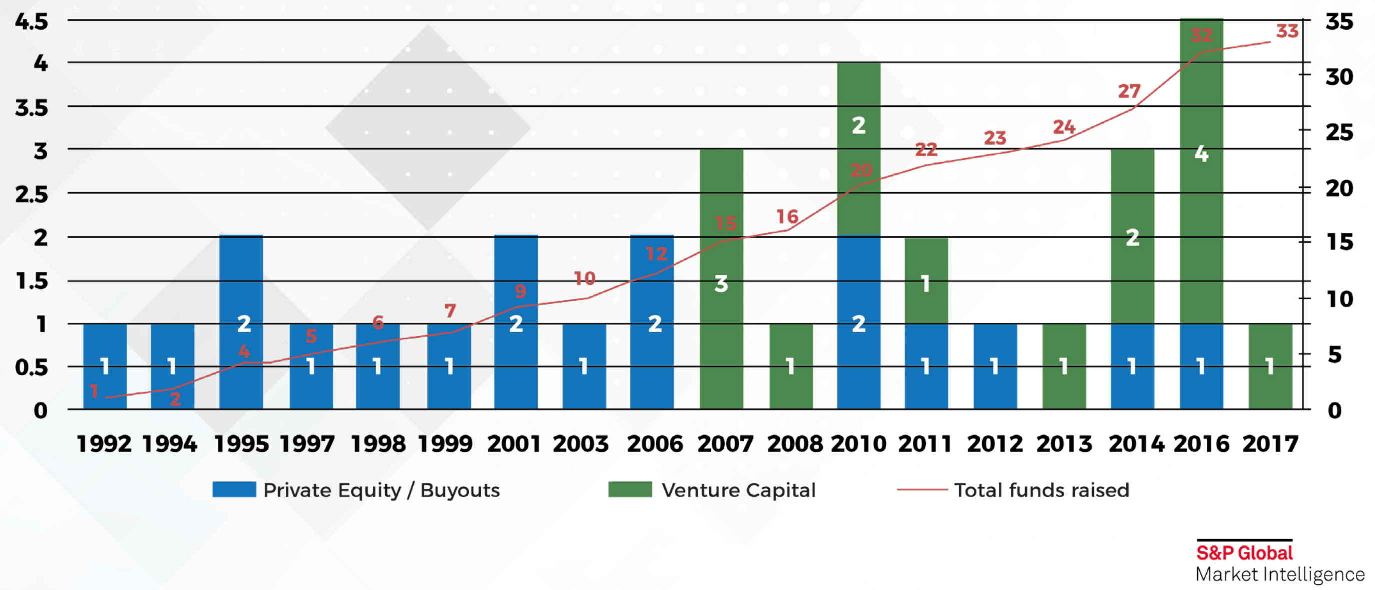
In collaboration with Matias Hoban, S&P Global Market Intelligence

In this section, we analyze the fundraising activity, that is to say, the activity of raising funds carried out by professional investment managers and General Partners (GPs) to constitute Venture Capital and/or Private Equity funds, which are in turn invested in companies and startups (as described in the previous section). The following graphics will help understand the fundraising evolution in Argentina in terms of new funds that were raised and the composition of their Limited Partners (LPs).

According to S&P Market Intelligence data, Argentina has been involved in private capital fundraising since 1992. Since then, and as of December 2016, 33 private equity funds have raised a total of USD 7,440 million. Funds are traditionally classified in terms of the companies' maturity where they invest. The total number of 33 funds splits nearly evenly into 18 mature-stage funds (Private Equity) and 15 early-stage funds (Venture Capital).

Figure IX below shows the evolution of new funds during the above-mentioned period. While an average of approximately two funds have emerged each year, the figures show that the number of new funds has doubled from 2006 onwards and reached its peak in 2010 and 2016 (with four and five new funds, respectively). A second observation from this graph is that the investment stage of new funds has changed as well, and most of the new funds received in 2007-period onwards were more focused on the Venture Capital stage.

Funds launched per year in Argentina by Investment stage



The chart only shows the years in which funds have been launched. Therefore, those years with no new investment funds are excluded.

Figure IX

Figure X, below, exhibits the current status of Private Equity and Venture Capital funds, as of 2017. Currently, 22 funds are active, though in different stages of operation (first three columns in Figure X). Eleven funds have already been liquidated, representing a capital amount of USD 2,514 million. Thirteen of the active funds, with an approximate total capital of USD 3,010 million, have already finished their investment period (i.e., have invested the total of their funds in various companies), being at the stage of portfolio management and evaluating potential exits. Four other funds have concluded their fundraising process and they have obtained capital commitments for a total of USD 1,037 million. The remaining five active funds are still at the fundraising stage, having accumulated capital commitments for a total of USD 179,5 million.

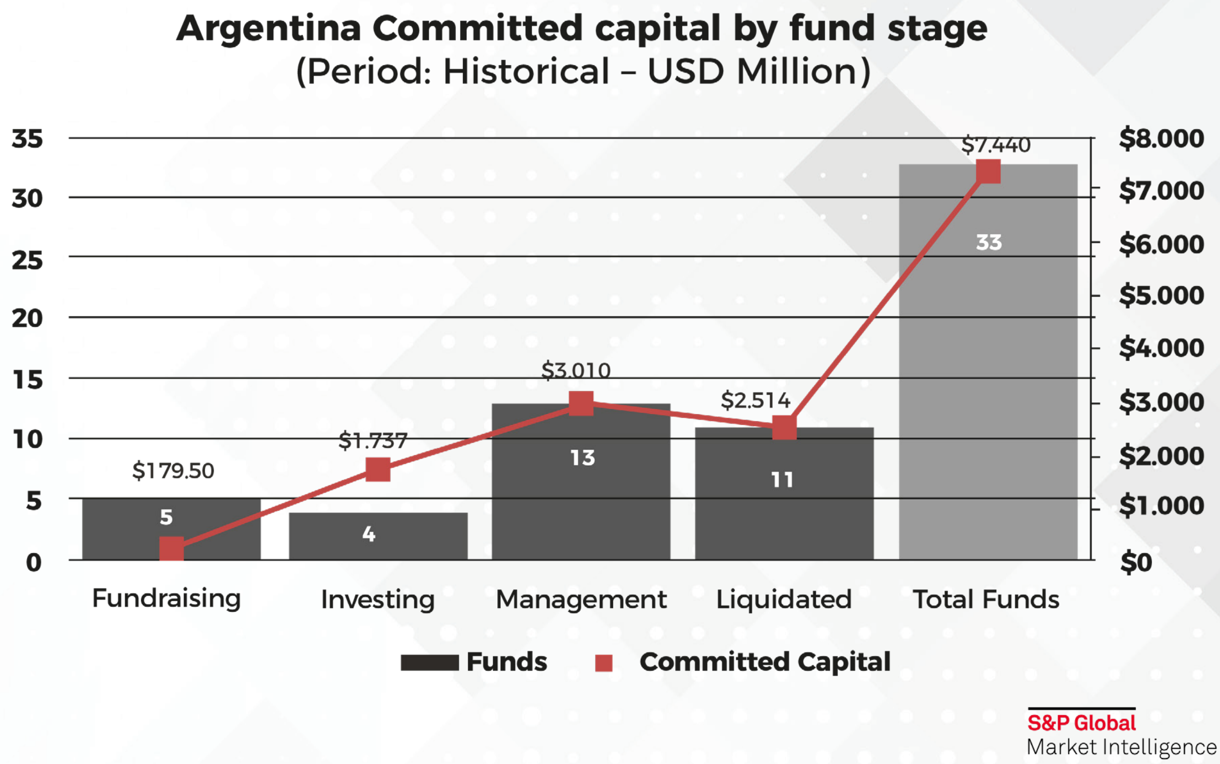


Figure X

In terms of Private Equity, it is important to note that the total fundraising activity is not necessarily associated with the total investments, since many firms (also known as sponsors) run investments through their balance sheet, a third company, or an alternative investment vehicle. This is the case in Argentina, where only 20% of the sponsors that invest in the country have ever raised a fund[3].

This fact seems to highlight a local feature of the Argentine market, that is, sponsors tend to make investments directly and not through the usual structure of investment funds.

The increased fundraising activity in the last ten years is promising for the industry. This increase, as already mentioned in this report, comes in a moment where new policies are being implemented with the view to improving the operational framework to carry out investment-related activities.

3 - See description of investors in the previous section.

Profile of Limited Partners (LPs)

There are several investors from which Venture Capital and Private Equity managers raise their funds. These investors, Limited Partners (LPs), are typically comprised by different agents ranging from institutional investors (such as pension funds and insurance companies), national governments and multilateral organizations, and private corporations and investment funds. In Argentina, the composition of investors suggests a prevailing role of foreign entities (especially in PE), and a majority participation of other funds (in both PE and VC), known as *Funds of Funds.*

Figures XI and XII below show the composition of LPs in the case of Private Equity funds. Foreign investment participation reaches 95% of funds committed from 1990 to 2005, and the totality of funds committed during the 2006-2015 period. Thus, the minority participation of local fund managers has disappeared in the last ten years.

In the first period, foreign funds of funds played an active role, accounting for 58%. Their participation increased to 80% in the latter period. The second largest participation is that of Endowment Funds and Foundations based mainly in the US and England, which accounts for 12% and 5% in the 1990-2015 and 2006-16 periods, respectively. Foreign pension funds account for another significant percentage, climbing from 5% to 10% in the latter period. Finally, foreign development banks maintained a participation close to 5% throughout both periods.

Figure XI:
Private equity LP composition of funds with headquarters in Argentina, 1990-2005

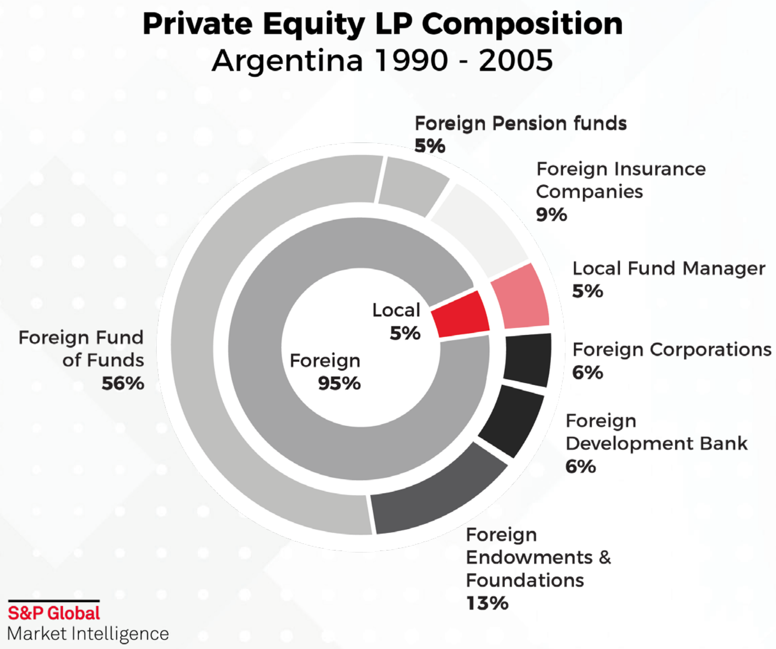
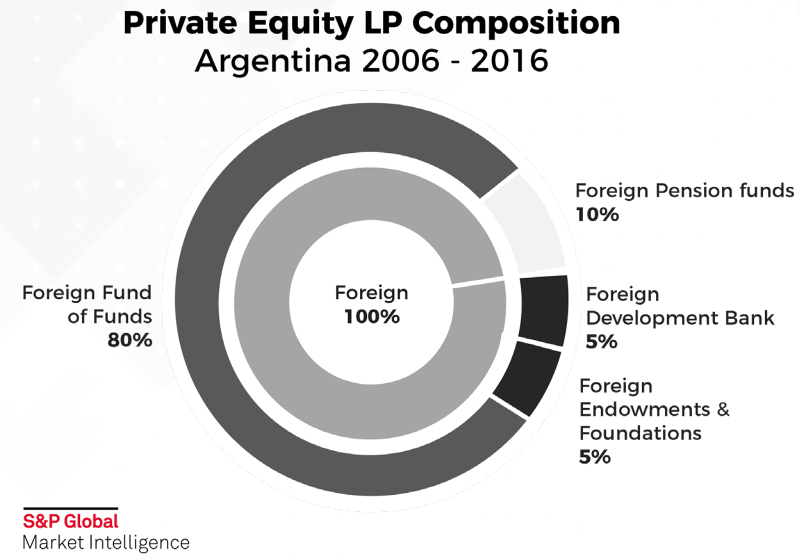


Figure XII:
Private equity LP composition of funds with headquarters in Argentina, 2006-2016



In the case of Venture Capital funds, the participation of local investors is higher, though still a minority, reaching 30%, as it can be observed in Figure XIII. The largest LPs are foreign funds of funds (48%) followed by local fund managers (13%). There is still a large participation of development banks (9% local and 4% foreign), and from endowments and foundations (9% foreign and 4% local). Among development banks, such players as Multilateral Investment Fund (MIF), Member of the IDB Group, IFC-World Bank, and CAF (Andean Corporation) have been active players not only in terms of committing funds but also as active market development actors. Finally, we also observe a significant presence of foreign corporations (9%) and foreign asset managers (4%). Details on some of these investors are provided in the following section.

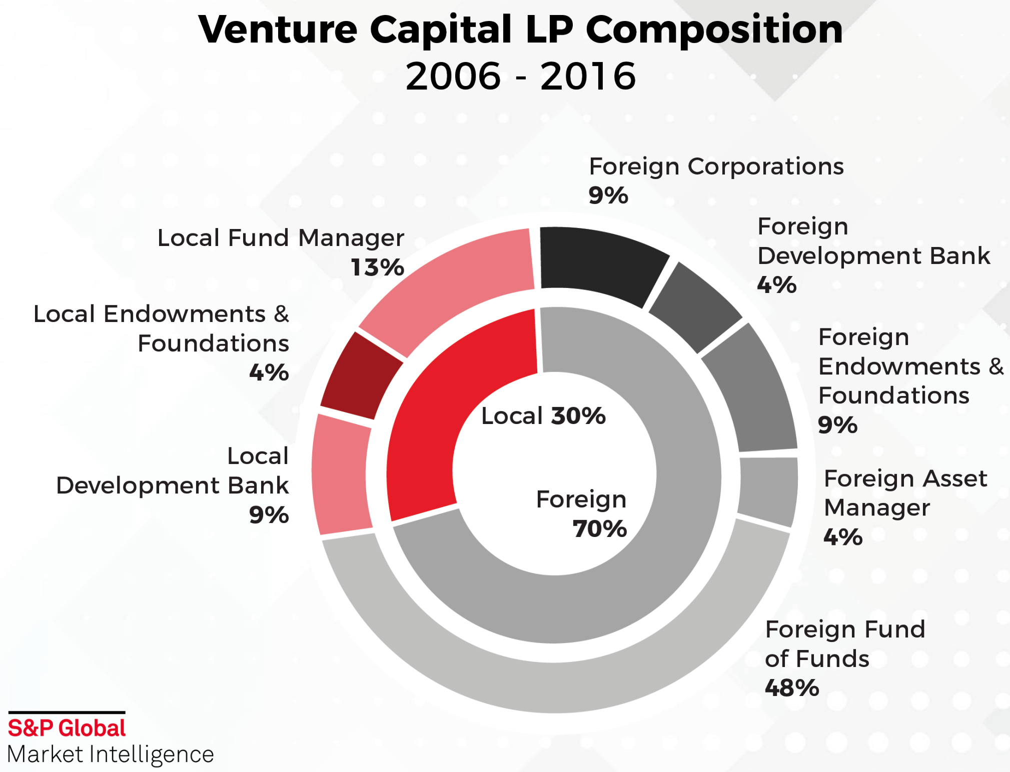


Figure XIII

Perspectives from LPs

Interview with Susana Garcia Robles, Unit Chief Loan and Equity Operations & Gender Coordinator

MIF – IADB. Multilateral Investment Fund, Inter-American Development Bank.

The Multilateral Investment Fund (MIF) serves as an Inter-American innovation laboratory to promote development through the private sector by identifying, supporting, testing and piloting new solutions to development challenges, seeking to create opportunities for the poor and vulnerable populations in the LAC region. To fulfill its role, the MIF engages and inspires the private sector and works jointly with the public sector when needed. The MIF has been a pioneer in Venture Capital in Latin America, launching its first investments in 1996. The support of the MIF has been instrumental in developing this industry across the region. Over the course of its more than 20 years of history, the MIF has approved more than 80 VC & seed funds, accounting for more than USD 300 million , out of which over USD 230 million have been disbursed to funds investing in over 600 com panies across 21 countries.

The MIF has also made an important contribution to developing local human capital in the industry, supporting more than 60 new VC and seed fund managers. MIF's role as key investor in numerous funds has helped attract significant volumes of investment into the region. Considering the current portfolio, MIF investments have mobilized four times the capital invested. MIF's work has helped develop high potential companies that stand out in their respective countries in terms of economic, social and environmental impact.

As VC seems to grow in hostile environments, the last 5 years have seen a re-emergence of the entrepreneurial spirit.

"When I began working on building VC ecosystems in Latin America in 1999, Argentina was seen by investors as the natural place where to start. Known by its world-class entrepreneurs, in the 80s and during the Internet boom, Argentina had several early successes that appeared to be the ones needed to consolidate the industry. Then, there came the Internet bubble burst, followed by the country's own crisis making the industry disappear.

Few PE funds withstood these crises, while seed and VC investments remained at a minimum. As VC seems to grow in hostile environments, the last 5 years have seen a re-emergence of the entrepreneurial spirit in the country. Globalization and technology had changed the game, making it possible again to venture and connect with others within the region and around the world. The push given by accelerators focused on investing in the country, but also doing regional moves, was key for Argentina. Throughout Latin America, Brazil has been the country where the industry consolidated more constantly, followed by Mexico that, after many years of focusing only on PE, has begun to grow its early-stage industry, thanks to government support. Chile has started to focus on early stage as well, creating StartUpChile and increasingly pushing for innovation.

Today, Argentina has improved drastically the environment for VC/PE, thanks to the government understanding of the key role this industry can play in moving the country forward towards an innovation economy.

In part, Argentina's promise for venture capitalists revolves around the fact that the country has many social problems that its innovating entrepreneurs are willing to tackle through technology, unlocking access to better health, education and finance to all, while upgrading traditional industries such as agribusiness and energy."

Argentina has enough size and sophistication to be an investment destination for private equity capital.

Interview with Gonzalo Fernandez Castro, Global Executive Board Member, Managing Director, Head Latin America Private Equity - Partners Group AG

Partners Group is one of the largest private markets investment managers in the world. They serve over 900 institutional investors worldwide and have USD 66 billion 66 billion in assets under management and more than 1000 professionals across 19 offices worldwide.

What's your general view of Argentina as an investment destination within Latin America?

Argentina is large and sophisticated enough to be an investment destination for private equity capital. However, in the last decade, Argentina became non-investable, and it still is. With the Macri administration and its reform agenda, the picture is changing rapidly, albeit there are still open points to deal with, such as FX level, fiscal deficit, rule of the law, and political swings, before it becomes investable again.

What is your opinion about Latin America as an investment destination?

For global private equity, Latin America is today quasi-irrelevant, accounting for only 2-4% of global PE investments per year. For infrastructure investors, however, it is relatively more relevant as infrastructure checks tend to be larger in the region than the PE ones, and this sector requires less of a developed capital market than PE, i.e. infra assets are not typically IPOed, but are typically sold to long-term asset holders such as pension funds. Even though Latin America is small as a private investment destination, its relevance goes beyond its current size. Latin America has an average GDP per capita higher than that of other emerging markets, yet with potential to continue to grow at higher rates than developed markets. It has a relatively younger population than other BRIC countries (younger than China and Russia, although a bit older than young India). It has natural resources, notably mining, agri and water assets. It has a relatively stable democratic regime, with some notable and isolated exceptions.

What are the most attractive sectors in which to build exposure via PE in Latin America?

There are two overarching themes in Latin America investment, namely the rise of the middle-income population and commodity exports. Regarding the former, many industries linked to consumers who are becoming richer are valid investment thesis, from education down to CPF and logistics. Regarding the latter, although Latin America has a global competitive advantage in certain commodities production and, as such, investing along those value chains should be valid theses, what happens is that, in the end, the profitability along such value chains is very much linked to commodity prices; therefore, this second thesis is less attractive, since it is less stable than middle income expansion thesis.

What are the competitive advantages of investing in Latin America vs investing in other emerging markets?

Latin America, when compared to China, India, or Russia, is closer to the Western way of doing business, since its cultural heritage is derived mostly from Europe. International investors find it t is easier to read and to understand . Latin America has a younger and richer population than other EMs. Latin America has plenty of natural resources.

What are the challenges and opportunities you identify in Argentina? In your opinion, what areas should Argentina improve in order to create a more interesting investment environment?

Except for natural resource industries, Argentina, in general, has a limited competitive advantage in international markets. It is a high-cost place to do business in, although it does not operate at such a quality level that justifies premium value propositions. On the other hand, it lacks volume to benefit from economies of scale, both in its domestic market as well as in international markets, which have traditionally not been properly exploited since Argentina became a closed economy in the second half of the last century. Thus, it cannot be Italy or Switzerland (on the quality side), nor can it be China or Mexico (on the volume side). To add to this negative picture, Argentina has a burdensome tax system—most of the profit generation ends up, in one way or the other, in the hands of an inefficient Stater. To create a more interesting investment environment, Argentina needs to reduce bureaucracy and tax burden. In addition, it should improve the institutional framework, especially the respect for the rule of the law with clear regulations, and with judges willing to make them the standard for playing the game. It should also further deepen its capital markets, i.e. not a bad idea to merge its stock exchange into a regional platform.

Interview with Andres Emilio Ponte, ROFEX S.A President

Rosario Futures Exchange (ROFEX) was founded in 1909. The company was created in response to the need to guarantee trades in futures and options contracts on commodities, which balance price variations mainly generated by temporary differences between supply and demand concentrations. Since its creation, volume increased significantly, turning ROFEX into a reference market for international prices.

What is your overall vision of Argentina as an investment destination in Latin America?

Statistics and studies on the region, particularly on technology startups, clearly show that Argentina is the most productive ecosystem (in terms of unicorns and ponies), while, at the same time, it is the most under-invested in the region, with only USD 20 million in VC investment in 2016. In summary, I think that Argentina is a diamond in the rough, and, of course, an ecosystem to which we are especially committed.

What is your view of Latin America as an investment destination?

Latin America poses a great opportunity, and it is also in urgent need to catch up with technology to address its poverty and inclusion issues, plus other serious structural problems such as dependence on commodity and demographic cycles, the growing unemployment, and the aging of the population. A growth in productivity to match US levels would imply an annual influx of over USD 10 trillion, tripling the GDP of the region. If the companies that provide these solutions manage to capture 10% of the value contributed, there is a great opportunity, and that is without considering that many of those companies have a global reach potential.

What are the most attractive sectors to invest through VC funds?

The boundaries among sectors are increasingly blurring due to the digitization trend. For example: Nano and Biotechnology, Agriculture, and Food and Health are sectors that are rapidly converging although the impact is not yet easy to notice. Other outstanding sectors are Fintech, due to the local relative delay, and everything related to sustainable development and inclusion, such as Renewable Energy, Smart Cities, Industry 4.0, Logistics, and XaaS models. In addition, it is important to highlight the opportunities available to develop global impact companies leveraged in local talent both in scientific and exponential technologies fields, such as crypto/Blockchain, IoT, AR/VR, AI, and software in general.

Argentina has changed its approach notoriously, by opening its economy to the world.

How would you evaluate the performance of your investments in VC in recent years?

At Primary Ventures, our portfolio has increased its mark-to-market value by 3 times, with a 30-month average investment life. We are very satisfied.

How would you compare Latin America to other emerging markets?

A startup targeting a regional reach in Latin America faces a challenging market fragmented into 20 countries with economies that have historically been quite closed, making it more complex to win markets and scale. This makes projects that manage to achieve a broad regional presence, or even a global one, by overcoming those barriers, and turning more attractive from the very beginning. There are exceptions in sectors such as Agriculture, where markets still have a relevant size.

What are the competitive advantages of investing in Latin America vs other emerging countries?

In our case, we are located in Argentina; therefore, there are obvious advantages related to geographical proximity and cultural similarity. If we add to that the fact that Argentina has changed its approach notoriously, by opening its economy to the world and releasing sectors that used to be heavily restrained due to bad public policies, this moment is unique. To be honest, we have not assessed investing in other markets because we want to focus on the opportunities Argentina has to offer, which, in our opinion, are much better than those available in the rest of the region.

What are the opportunities and challenges of investing in Argentina?

In the early-stage technology startup segment, opportunities stem from the asymmetry between talent and venture capital available locally, as well as from the change in public policies I mentioned earlier. As for the challenges, I'll comment on that topic in the following question.

In your opinion, what areas need improvement in Argentina to create a more interesting investment ecosystem?

Let me give you three specific examples:

Adhering to the PCT treaty is essential for the patenting of inventions in Argentina to grow strongly, so that the associated royalties and taxes of those inventions have a local impact.

Simplifying and exempting from taxation, such imports of hardware and producer goods needed for the research and development of exponential technologies is also essential for technology entrepreneurs to be competitive and add value.

The recent legislation passed to ease the process for setting up new companies, the dissemination of entrepreneurship values, and providing the sector with fiscal incentives are very positive initiatives, yet this type of actions should be fostered at a much greater level as they are essential for the development of the country.

Adhering to the PCT treaty is essential for the patenting of inventions in Argentina to grow strongly.

Argentina: Investment Track Record

In the following sections, we will review trends and characteristics in Argentina. We will address Private Equity, Venture Capital, Corporate Venture Capital, Alternative Investment Funds, and Impact Investment, and we will also describe the trends and the variety of stakeholders in Seed Capital.

Private Equity Overview

According to S&P Global Market Intelligence data, more than 900 private capital investments have been made over the last 30 years in Argentina. While in the past most deals where undertook in the form of Private Equity, there is an increasing significance of Venture Capital, with an increasing number of early-stage transactions, particularly since 2010.

Almost 50% of the investments were made in the last 10 years. Between 2006 and 2016, Private Equity firms performed 101 investments, while 396 investments were made by firms specialized in early-stage transactions (Venture Capital firms). Thus, the last 10 years accumulated a total of 497 private capital investments in Argentina.

The last ten years also show short investment cycles of about 3 to 4 years in the number of deals. Peaks reaching 16 and 15 investments in 2007 and 2011 were followed by valleys of 5 (2010), 4 (2013), and 1 in 2015. The total value of investments has remained weak after 2010, below USD 250 million. Some analysts associate this trend to an extended period of local macroeconomic uncertainty, particularly severe during 2015, where exchange rate restrictions increased, inflation accelerated and there was uncertainty about the country's view of the global dynamics close to Argentine elections. In 2016, the activity seemed to get back on track, showing 9 private equity investments for more than USD 100 million; transactions in which 50% of the parties involved were foreign buyers.

Private Equity Deal Volume & Total Disclosed Deal Value – Last 10 Years in Argentina (In USD Million)

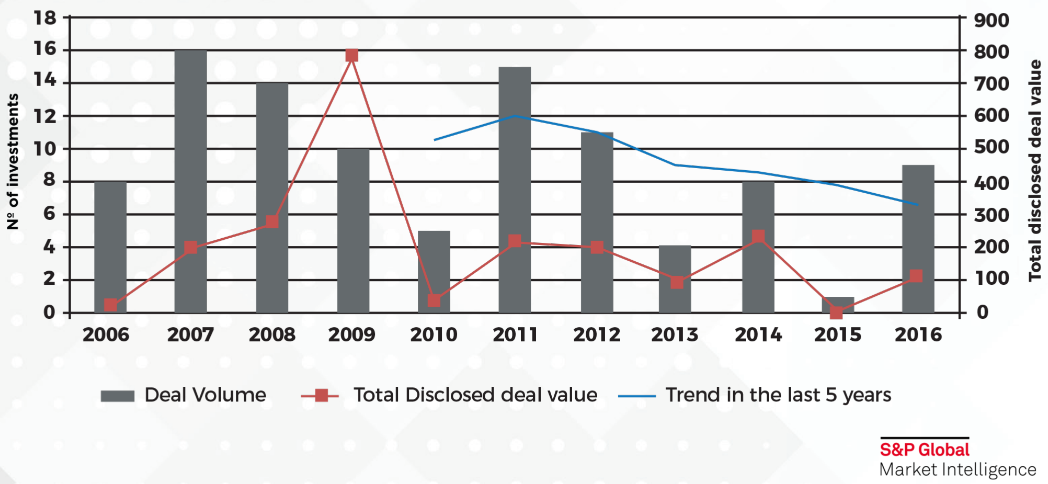


Figure XIV

Investment Sectors

Private Equity firms active in Argentina, invest across a broad spectrum of industry sectors, as shown in Figure XV. Nevertheless, the last ten years of activity indicate Consumer Staples, Information Technology, Industrial and Financial sectors as the most targeted ones.

Within Consumer Staples sector, Beverages and Food Products were the most invested sub-sectors. Some significant transactions included: Victoria Capital Partners in Grupo Los Grobo and Satus Ager, Grupo Pegasus in Pampa Cheese, and Hicks Trans American Partners in Grupo Pilar S.A. Within Information Technology sector, Internet, Software and IT Services were the most invested sub-sectors. Some important transactions were: Axxon in Aspro, HSBC Capital in Grupo ASSA, and Riverwood Capital, FTV Capital and WPP in Globant. Within Industrial, Construction and Engineering sectors, Professional Services and Machinery were the most invested sub-sectors. A few of the most relevant investments were: Magna Capital in Barugel Azulay, Crossbow in Estudio 2H, and Global Infrastructure Partners in International Trade Logistics. In the Financial sector, the Insurance sub-sector attracted the most interesting deals. For example, Grupo Dolphin in Consolidar Seguros and Kranos Capital in Integrity.

Private Equity firms, active in Argentina, invest across a broad spectrum of industry sectors.

Distribution of investments by Private Equity firms across industries in Argentina
(2010 - 2016)

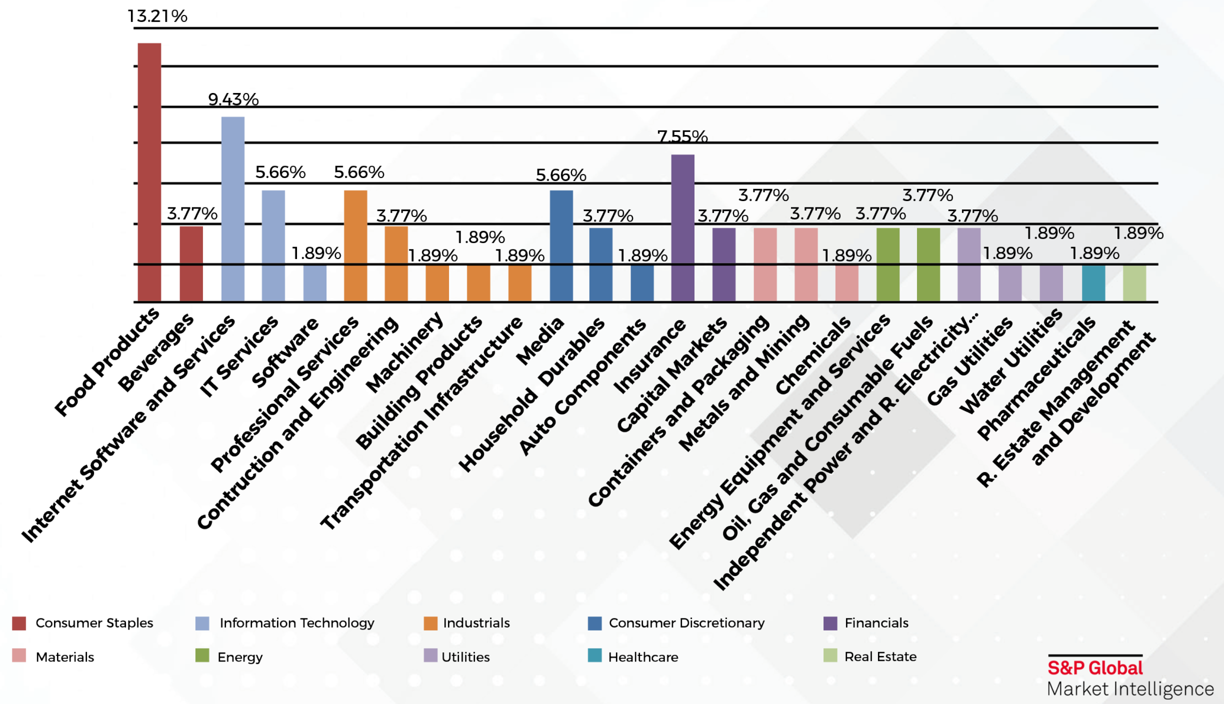


Figure XV

Refer to Annex A to review the full historical Private Equity industry track record in Argentina.

Private Equity Investing in Argentina

Interview with Carlos Garcia - Co-Managing Partner and Chairman at Victoria Capital Partners

Victoria Capital Partners LP is an independent investment firm focused on private equity investments in Latin America. Victoria Capital Partners manages two private equity funds ("SAP I" and "SAP II") and several co-investment funds with capital commitments amounting to more than USD 1.7 billion. Victoria Capital Partners seeks significant capital appreciation through equity-related investments in leading and growth-oriented companies across its core markets in Latin America, mainly Brazil, Argentina, Colombia, Peru, and Chile.

Can you briefly describe Argentina's current scenario from a historical point of view?
After almost fifteen years of being absent from the plans of most private equity investors, Argentina is back in the market. While this return is within

After almost fifteen years of being absent from the plans of most private equity investors, Argentina is back in the market.

early-stage investment, the country has already attracted enough attention within the investment community. It will obviously take some time before Argentina gets back to the center stage of the regional industry, but the potential upside of opportunities available in the country is such that the level of activity is likely to grow very fast. While it is unclear if the country will achieve the preeminent role acquired as a private equity destination in the 90's, it is starting from such a low base that it will experience a phenomenal recovery.

-Have you noticed a change of perception from international LPs and PE firms regarding Argentina?

The first distinction to make is between those firms that have never left the country and the rest of the investment community. Those investors that stayed in the country started to move right after the political changes that took place in late 2015 and are trying to capture the first-mover advantage. For this LPs, PE firms that were not "open" for business in the country, the first reaction was curiosity and intrigue. That was particularly clear in 2016 and the first quarter of 2017. We are now getting into the second phase, in which investors are seeing potential continuity in the political and regulatory landscape and are therefore getting ready to deploy capital. I think this movement is still young to show acceleration after the midterm elections; it is likely to expand further in 2018.

What are the main opportunities you see in Argentina for the growth of the Private Equity industry?

The Argentine economy is moving again into a growth pattern in which the private sector is likely to face significant opportunities. In this context, businesses are likely to demand capital to finance that growth and public markets are not yet a reliable source for that equity capital. In addition, debt markets are not yet mature enough to provide the capital needed. Finally, after several years of being literally outside the mainstream investment environment, there are several families or investors willing to recycle their assets' portfolio and, eventually, monetize them. All these themes are likely to boost the several opportunities private equity can capture. If you assume that Argentina can reach levels of PE investments comparable to those of Colombia or Peru, the growth potential is phenomenal.

What do you think the main future challenges for the PE industry in Argentina are?

PE will be facing the same macroeconomic and regulatory challenges that any investor will have to deal with in the country. The complexity and magnitude of the economic agenda is such that it will present challenges to any investor, whether PE or strategic. However, the risk/reward profile is such that we will witness a significant development in the industry. There are multiple aspects in the tax, regulatory and legal frameworks that need to be improved, but the government seems to be committed to dealing with them. Finally, I think that the industry will have to overcome a reputational problem. Argentina should convince investors that it will no longer fall in irrational policies, and the local industry will have to regain the credibility lost in the 2000/2002 crisis. There are many LPs that lost money then, and they need to get convinced that this time it will be different.

I believe the industry is going to grow very fast.

How do you assess risk in an economy constantly changing its rules every ten years or so?

The only way is being very disciplined in the type of businesses you invest and in the valuation of assets you buy. The Argentine economy is cyclical and will continue being cyclical. You need to factor this characteristic in your investment assessment and the price of assets you buy. Be prudent and conservative.

What's your take on the future of the Argentine industry?

I believe the industry will grow very fast. It is coming from insignificant levels and the opportunities are out there. What is essential is that the industry raises its professional levels so that high quality managers can lead the process of re-inserting the country into the PE market. Success breeds success, and that is the reason why we believe that the best way to develop the industry is that good managers make good investments slowly but steadily, generating good returns for LPs, and bringing new investors into the market. If the industry avoids the temptation of cutting corners like it has happened in the past, we will see a great development of the asset class in the country.

Success Stories

Peñaflor: DLJ Merchant Banking

The purchase and sale of the Argentina-based firm Grupo Peñaflor—one of the leading wine companies in the country—is an example of how sound judgment and a clear vision can bring about success even in turbulent times.

The investment firm DLJ Merchant Banking ("DLJ", whose investment professionals run today Victoria Capital Partners) got involved in the company as early as 1997 when they joint hands with Luis Alfredo Pulenta, one of the numerous shareholders of the family business. Carlos Garcia—Co-Managing Partner and Chairman of Victoria Capital Partners—is the man behind the initial USD 40 million investment that gave DLJ its first 20 percent share in the firm. Alejandro Sorgentini—Senior Partner at Victoria Capital Partners—in a personal interview with ARCAP recalled how Garcia identified Peñaflor's underutilized potential: A company with good assets, recognized brands, history, and prestige but without these remarkable strengths being reflected in its actual company value. Together with Luis Alfredo, they bought out more than 20 relatives involved in the firm.

During the following years, a new professional management team was formed, and the highly diversified firm was consolidated. The focus was to increase the presence in the fine wine segment. The success of this strategy became evident when positive EBITDA numbers were accomplished and, in 1999 and 2000, the company acquired two fine wine companies.

Despite its excellent performance, in 2001 the firm's fate was put at risk when Argentina went through a major economic crisis. Most Argentine companies faced serious problems in the repayment of their international debts as the Argentine peso devaluated, and payment chains got interrupted. Peñaflor was no exception. DLJ had to decide either to sell the company with the implied financial loss, or to believe in its capacity to make a full recovery and buy out the control of the Company. They opted for the latter.

Sorgentini explained: "When the entire financial community left Argentina in a rush and when banks cut off credit lines, we as shareholders invested money because we were convinced that the underlying value of the company was still there and was only facing temporary problems.". A judgment that proved to be right as DLJ achieved an enormous value-added. In Sorgentini's words: "we got there, it only took us a little longer.". More precisely, eight years longer, as the average ownership period in

We were convinced that the underlying value of the company was still there and was only facing temporary problems.

Private Equity investments lasts five years and Peñaflor was retained for thirteen.

The company's rebuilding took place in two phases. During the first two years, the clear priority was to restore the firm's general health with the investors providing much more than mere financial aid. In a situation of total chaos, the new owners entered in friendly negotiations with banks and started creating trust among the Peñaflor team. Periodic meetings with the management, first weekly then monthly, were used to define the company's business strategy and establish a shared vision, which was to become one of the leading wineries in the world. The company divested the activities and products that were not part of the core business. As Sorgentini pointed out, these steps were crucial in paving the way towards the second phase of a strong company growth.

After restoring the company's health, DLJ started to shift focus from the production of basic table wines to prestigious high-quality wines and the expansion of exports. Significant investment was made in technology and in the company's professionalization. The weak currency value made exports a profitable business, however, the priority was always to create sustainable and efficient structures that would last even when economic conditions changed.

Instead of creating new brands, they decided to change the focus within wineries and produce less table wine and more fine wine, as for example in it is the case of Trapiche and the promotion of the award-winning Trapiche Medalla. In other cases, marketing campaigns were used to modernize and rejuvenate outdated brands.

Indeed, under the DLJ leadership, Peñaflor turned into one of the clear leaders of the Argentine wine industry with their products being sold in more than 80 countries. During the interview with Sorgentini, it became clear that positioning a new product in the wine sector takes time and requires a long-term vision. There is no fast-track to the process of building a sustainable brand. Its quality, furthermore, needs to prove stable during consecutive years to find international recognition. Living up to international quality standards, in 2007, Peñaflor finally started presenting their new and improved products in international wine fairs receiving well-earn awards and the media attention.

In April 2010, DLJ sold 50% of its shares to the Bemberg family and, in December of the same year, the remaining 50%. As it has been demonstrated, the firm not only made a full turnaround despite the turbulent economic situation in Argentina but, in addition, it experienced significant growth during the years after its restructuring and recovery. From 2003 to 2010, revenues and EBITDA grew at 22% and 26% CAGR in USD, respectively. Indeed, by the time the PE investment cycle came to an end, Peñaflor had become one of the leading wineries in Argentina with a recognized presence across the world.

Linzor Capital Partners: Hoyts

Linzor Capital Partners is a leading private equity firm that invests in mid-sized companies in Latin America . With offices in Chile, Argentina, Mexico, and Colombia, as well as seven partners with a long track-record investing in the region, Linzor has a strong local presence in its target markets. Since its founding in 2006, Linzor has raised over USD 1.2 billion in capital commitments across three private equity funds. Linzor seeks to create value by implementing strategic initiatives and operational improvements to promote the growth of its companies.

Linzor, represented by its founding partners Tim Purcell, Alfredo Irigoin, and Carlos Ingham, made its first investment in 2007 by acquiring Hoyts, a regional cinema chain with presence in Chile, Argentina, Brazil, and Uruguay.

Carlos Ingham and Jorge Matheu — partner and principal, respectively, at Linzor Capital — explained to ARCAP that the cinema operation was not a core asset to its former owners, the US -based company General Cinemas and the Australian -based company Hoyts Cinemas. During the five years prior to Linzor's acquisition, the conglomerate had not made any relevant investment in its premises nor had it pursued an active commercial strategy. Linzor identified the potential to increase

By the time the PE investment cycle came to an end, Peñaflor had become one of the leading wineries in Argentina.

the company's market value by improving its underutilized premises, attracting new customers, selling additional minutes of on-screen advertising, and improving the offering of food and beverages. With that in mind, Linzor entered into negotiations with the conglomerate and, seven months later, in July 2007, acquired 85% of Hoyts.

The Linzor team was not new to the cinema sector. In 1994, while still working at JP Morgan Partners, Linzor founding partners had acted as initial shareholders in the Mexican cinema chain Cinemex. They had as well invested in the Venezuelan Cines Unidos operation in 1997. The fact of having relevant experience in the sector, motivated Linzor to assume the challenge of improving Hoyts operation. With the aim of incorporating best practices, they invited the Ulivi family in—with whom they had shared ownership of Cines Unidos—to participate as minority shareholders.

After assuming the ownership of Hoyts, Linzor maintained the Chile team, while a new executive team was hired in Argentina, with Pablo Lundahl and Martín Sorrosal becoming CEO and CFO, respectively. Ingham explained that the change of ownership and new management was largely welcomed by Hoyts employees and that most of the team was motivated to participate in the improvement plan.

As part of its strategic plan, Linzor divested Hoyt's operations in Brazil and Uruguay, and focused its energy on developing its core markets, Argentina and Chile. With the purpose of expanding operations in Argentina, Linzor developed a new cinema inside the DOT shopping mall that opened doors in 2009. In that same year, the investment firm bought the National Amusements Inc.'s cinema exhibition business in Chile. Linzor managed to improve the scale of its Chilean operation through this acquisition and through the improvement of its theatres.

Throughout the investment period, Linzor implemented several key initiatives:

- Acquisition of Showcase's assets in Chile; it made significant investment to upgrade theaters and achieved a smooth integration with the original operation in Chile.

- Introduction of a premium concept: online sales, reserved seating, and self-service ATMs.

- Development of an in-house advertising team.

- Implementation of an active commercial strategy to increase theatre attendance.

- Deployment of 3D screens (first exhibitor to deploy in Argentina and Chile).

- Development of a new 10-screen theatre in Argentina.

- Refinancing and recapitalization of the business.

- Implementation of an incentive compensation package for key executives.

- Divestment of non-core assets.

The significant improvement and value added by Linzor is reflected by the following numbers:

- Increased admissions per screen from 69 to 96 thousand (accounting for a 39% expansion).

- Increased revenues by 120% over the investment period. The growth was driven by attendance increase, food and beverage consumption, and on-screen advertising sales.

- Increased EBITDA by 2.5 times over the investment period (EBITDA CAGR of 30%); and increased EBITDA margins by 5 p.p. (accounting for a 27% expansion).

In 2011, after four years of running the company, Linzor Capital sold its Argentine operations to Cinemark and its Chile operations to Chilefilms.

Increased revenues by 120% over the investment period.

Venture Capital Overview

In collaboration with Hernan Kazah, Co-Founder and Managing Partner at Kazsek Ventures

Venture Capital in the US: The beginning

Venture Capital is a young industry that emerged with some consistency in the United States around the 1950s, when several wealthy families of that time started investing regularly in innovative, emerging and high-growth firms. For the sake of perspective, in 1978 the capital invested in VC in the US represented only 0.0034% of the GDP while today it accounts for 0.16%%, and it has already had a tremendous magnifying effect on its economy and society. Currently, 63% of the market capitalization of all US public companies funded after 1974 corresponds to VC-backed companies that account for 38% of the revenues, 61% of the net income, and 85% of the R&D investment. In addition, these VC-backed companies employ around 3 million people and pay close to USD $57 billion in taxes yearly[4]. Furthermore, among them, there are the 5 companies with the largest market capitalization in the world: Apple, Alphabet (Google), Amazon, Facebook, and Microsoft.

Argentina

The VC industry in Argentina, —and in Latin America in general, —is still very nascent, and its weight over the GDP is close to what it was in the United States 40 years ago. That said, the industry has progressed considerably since the beginning of this century. At that time, companies such as MercadoLibre or Despegar got funded by international banks or large corporations that had seen the boom of technology in the US and wanted to take an active role in emerging markets where Venture Capital firms were non-existent. However, this source of financing lasted just a few years and as soon, as the technology market cooled down in the US, all these firms retreated from the region, leaving no capital available for new startups.

Nonetheless, as technology continued to evolve taking a more central role in our lives, we have seen in the last few years the emergence of some firms that provide value-added capital for the different stages of a company's life, such as NXTP Labs and Wayra for pre-seed and seed capital, and Kaszek Ventures for the Series A stage, to mention a few. Also, the number of individuals pursuing the entrepreneurial path has grown considerably during the last years, with 29% of Argentines between 18 and 44 years of age intending to start a company within the next 3 years[5]. Given this trend in conjunction with the availability of funding alternatives, the VC activity in Argentina has been growing lately, with 2016 having 50% more deals when compared to the previous year (26 vs. 17 deals)[6]. Moreover, 2017 has already witnessed some interesting movement, with companies such as Despegar.com raising USD 332 million in an IPO, FlyBondi raising a USD 75-million round led by Cartesian Capital Group LLC, Auth0 closing its USD 30-million Series C, Bluesmart raising a USD 12-million Series A round, Digital House receiving an undisclosed Series A to disrupt the technology job market, and Logicalis acquiring a controlling stake in Nubeliu.

The underlying characteristics of Argentina make the country ideal for technology disruption. With a population close to 44 million, half of its inhabitants are under the age of 31[7], and already 41% of all Argentines have a smartphone. On top of that, mobile connections are getting considerably faster, with 3G and 4G now accounting for 37% of the entire connection base[8]. Furthermore, the ecommerce penetration of the total retail rate in Argentina (1.9%) [9] still has a lot of room to grow when compared to more mature markets such as the US (8.2%)[10]. These trends, i.e. increased smartphone penetration, faster connectivity, and ecommerce penetration potential, will only continue to increase, creating newer, larger and more exciting opportunities for entrepreneurs and VCs.

But one of the most important distinguishing feature that Argentina has always had is the quality of its entrepreneurs, who have the capacity to operate in highly risky and volatile environments with a degree of comfort not common in other countries and regions. On top of this, Argentine entrepreneurs almost always have had a regional expansion mindset right from the moment they launch their companies. This is the case of companies such as Restorando, which started its Argentine and Brazilian operations simultaneously. Taking into consideration these distinctive factors, if these talented entrepreneurs are supported and leveraged by a robust VC ecosystem that provides not only capital but also value added operational expertise, in addition to a friendly legislation with clear operating rules, it is not exaggeration to think that the success of the US VC industry, along with its impact on the economy and society, can be replicated in Argentina as well.

Argentina's opportunity

Fortunately, the key components for this beneficial process are starting to appear in our country: Smartphone penetration and speed of connectivity are on the rise, the number of talented individuals turning to entrepreneurship is growing each year, the availability of capital for different funding stages is increasing (Kaszek Ventures recently raised a USD 200-million fund), and the legislation is now accompanying the sector by facilitating processes such as more flexible incorporation requirements for new companies and certain benefits to investors (the Entrepreneurship Law).

One of the largest and most interesting opportunities for disruption in the country comes from the intersection between agriculture and technology. Because of its natural conditions, combined with a prominent agricultural tradition, Argentina already plays an important role worldwide, contributing 1.1% of the global agriculture value added[11].

Moreover, a considerable part of the Argentine economy itself depends on the performance of the Agricultural sector, with agriculture accounting for 7.6% of the total GDP of the country[8]. From precision agriculture and farm management platforms to robotics/drones and biotechnology advancement in terms of seeds and pesticides, the opportunity for expanding the value of the agricultural sector is huge, in addition to becoming a leader in Ag-tech innovation globally.

5- Global Entrepreneurship Monitor, 2016
6- LAVCA Industry Data, 2017
7- World Bank Data, 2017
8- eMarketer, 2016
9- Ecommerce Foundation, 2016
10- U.S. Commerce Department Report, 2017
11- World Bank Data, 2016

4- The Economic Impact of Venture Capital: Evidence from Public Companies, Stanford GSB 2015

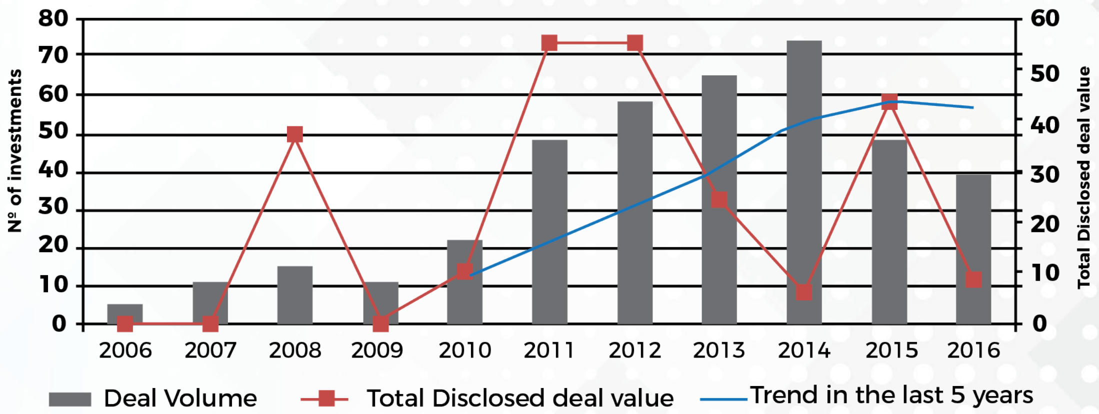
So far, we have experienced the first "taste" of the positive impact a successful technology company can have on the society it operates in from companies such as MercadoLibre, Despegar and Globant, all of which did not have access to a robust VC ecosystem in the country. Despite that, these three companies now trade publicly on the NASDAQ and NYSE, respectively, and collectively employ close to 14,000 people across Latin America. If Argentina can manage to grow and build a solid entrepreneurial ecosystem with relevant VC firms supporting and enhancing founders, then the country will start to see more companies like "MercadoLibre", "Despegar" and "Globant" disrupting different verticals in the coming years, positively contributing to the society in terms of employment, innovation, and tax revenue. The wheel of technology disruption has started turning.

Investment Track in Venture Capital

The last ten years have witnessed a significant increase in Venture Capital activity, particularly from 2010 onwards. In terms of number of deals, activity has peaked in 2014, with more than 70 deals. Activity has only slowed-down in the last two years. Yet, in 2016 there were 40 direct investments, with participants including local and international investors, which represents 5 times the investments made 10 years ago, in 2006. The creation of new VC funds, a growing source of deals such as accelerators and incubators, and the active promotion of the public policies mentioned previously, seem to have set the stage for this growth to continue.

In terms of deal value, the trend presents a higher volatility, probably driven by the atypical amounts of some deals. The trend reached the top in 2012, faced a valley in 2014, and peaked again in 2015. The last five years register 284 investments in early-stage projects in Argentina, for a cumulative total disclosed value of approximately over USD 200 million invested.

Venture Capital deal volume & total disclosed deal value (Million USD) last 10 years in Argentina



S&P Global Market Intelligence

Figure XVI

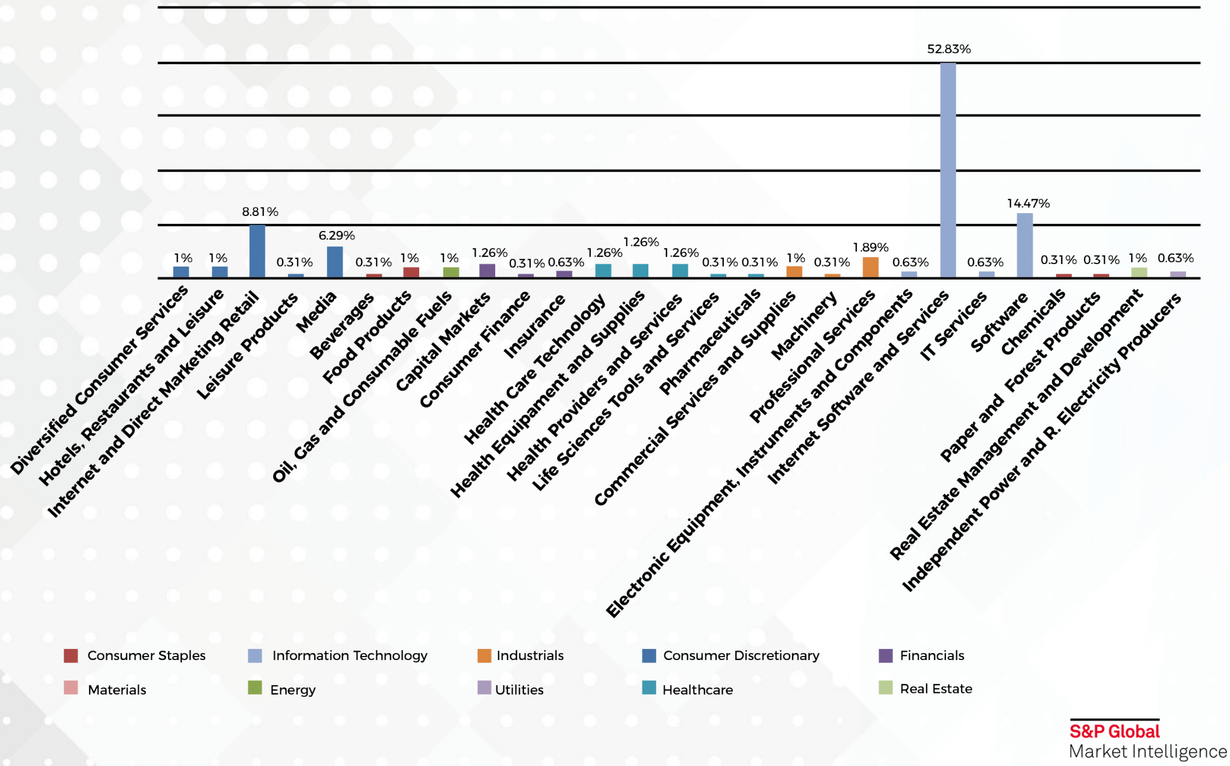
Investment Sectors

Unlike Private Equity, Venture Capital in Argentina has expanded to moreacross various sectors of the industry. However, it still presents great concentration around the Information Technology sector and, to a much lesser extent, around the Consumer Discretionary sector.

The following analysis studies the last six years investment industry distribution. The results show the Internet and Software sector within Information Technology industry as the most invested sector in Argentina, receiving 52% of the investment allocation of venture capital firms. Some of the most representative transactions in this sector were: Fintech, AdTech, EduTech, E-health, Big Data/AI/Machine Learning, Cloud Services, IoT/Smart Cities, Entertainment (Games, VR/AR, etc.), and E-commerce, among others.

Internet and Direct Marketing Retail and Media, within Consumer Discretionary, follows as the second most preferred sector, capturing almost 9% of the investments made throughout the period mentioned. Interesting investments in this segment include from IoT and Smart Cities Solutions to E-Commerce and service fulfillment platforms.

Distribution of investments by Venture Capital firms across industries in Argentina
(2010 - 2016)



Refer to Annex B to review the full historical Venture Capital industry track record in Argentina.

Figure XVII

Success Stories

Mercado Libre

Buenos Aires-based Mercado Libre (MELI) is the largest e-commerce and payment ecosystem in Latin America. MELI was founded in 1999 by Marcos Galperín and Hernán Kazah who were fellow students at Stanford University.

Today, the company operates in 18 countries and it has more than 4000 employees and 174 million users in Latin America. Its market capitalization is worth more than USD 10 billion, and recently MELI has displaced Yahoo! from the NASDAQ 100 index, an index comprised by the 100 largest, most actively traded companies listed in the NASDAQ stock exchange. [12] Certainly, MELI has become one of the most important companies in Argentina, more precisely, the second largest after Tenaris, and it ranks before YPF. [13]

Despite its actual impressive size, MELI started from scratch, and MELI's first investment was obtained through quite unconventional means. In 1999, John Muse—co-founder of HM Capital Partners—spoke to the Stanford MBA students and Marcos Galperín got the opportunity to pitch his idea to Muse by volunteering to take him to the airport. The story says that, when running out of time, Galperín purposely took a wrong turn. By the time they finally reached the departure area for private planes, he had, indeed, succeeded in bringing Muse on board as an angel investor. [14]

According to Kazah, over its first two years in business, the multinational firm that was already operating in 12 countries made less profit than its neighboring small pizza restaurant. As a matter of fact, when MELI was launched, internet usage in Latin America was still low and getting started was not easy, which is also why Kazah insists in the importance of entrepreneurs having stamina and a long-term vision. [15]

The same year that MELI received its first investment, the company was selected to join the Endeavor network, a non-profit organization dedicated to accelerating high-impact enterprises around the world by providing them with mentoring, strategic guidance, and investor connections. Additional funding was obtained from JPMorgan Partners, Flatiron Partners, Goldman Sachs, GE Capital, and Banco Santander Central Hispano. As internet usage slowly started to increase in the region, transactions in MELI also went up. A process of steady growth had been set in motion.

A milestone in MELI's growth strategy was to establish a strategic business relationship with the world-leading online marketplace eBay. In 2001, just in time when VC investments came to an end due to the dot-com collapse, MELI acquired its Brazilian competitor Ibazar from Ebay in exchange for a 19.5% ownership of the company. Ebay committed itself to sharing best practices with MELI and committed not to forge alliances with other trading sites or to launch its own operations locally, thus facilitating MELI's consolidation in the region. On August 10th 2007, MELI became the first Latin American company to go public in NASDAQ.

After having been sponsored by Endeavor, Mercado Libre founders continue to use the network today to share their own experience and support other entrepreneurs. MELI CEO, Galperín, is, in addition, a member of the Endeavor National Board. Hernán Kazah co-founded Kaszek Ventures in 2011, a venture capital firm that partners with exceptional entrepreneurs to build sustainable, high-impact technology-based companies with an initial focus in the Latin American market. He is managing partner at the firm that—with approximately USD 230 million invested in start-ups in Argentina, Brazil, and Chile—is the leading investment fund of the region. [16]

Interview with Pedro Arnt - Chief Financial Officer at Mercadolibre.com

Can you identify 4 key elements to describe MELI's success?

Here are four elements to MELI's success. Probably not the only ones but some of the key ones, for sure:

- Perseverance and the an understanding of the fact that, in the internet world, most initial deployments are probably flawed and that it is essential to experience a consistent process of iteration until you get to the right product Market matches-market fit.

On August 10th 2007, MELI became the first Latin American company to go public in NASDAQ.

- The quality of people within the team and the ability to hold that team together over time. It's a company with a very high average of employees' longevity.

- Having a very good understanding of what's happening in the consumer Internet space globally, and adapting and applying that knowledge to the local reality of each of the markets we operate in.

- The final one is probably the understanding of the importance of finding business areas and opportunities where technology can really generate incremental value to existing non-digital businesses and focusing on those rather than on others where perhaps the existing physical business still works relatively well.

What do you think about the opportunities and challenges companies have to face to create exponencial businesses from Argentina such as MELI did 15 years ago?

Probably the biggest challenge continues to be the scarcity of capital, especially for early-stage companies. A second potential challenge, especially within the Internet space, is the availability of human capital in the software engineering space. The sector is becoming increasingly competitive, and I think it's necessary to start producing more engineers in Argentina and in Latin America going forward. I'm much more optimistic and positive

12- La Nación (12.06.2017). Mercadolibre reemplaza a Yahoo entre las 100 empresas de tecnología más importantes del mundo. Retrieved 07.09.2017 from http://www.lanacion.com.ar/2032823-mercadolibre-reemplaza-a-yahoo-entre-las-100-empresas-de-tecnologia-mas-importantes-del-mundo
13- Bazzan, Gustavo (05.05.2017). Mercado Libre ya vale US$ 12.000 millones, más que la petrolera YPF. Clarín. Retrieved 07.09.2017 from https://www.clarin.com/economia/economia/mercado-libre-vale-us-12-000-millones-petrolera-ypf_0_rJ1J7891W.html
14- Forbes Argentina (05.05.2017). Marcos Galperín: ¿Cómo logró el éxito de Mercado Libre? Retrived 07.09.2017 from http://www.forbesargentina.com/marcos-galperin-mercado-libre/
15- Revista (12.01.2013) Hernan J. Kazah, Co Fundador de Mercado Libre, una historia inspiradora. Retrieved 07.09.2017 from http://mprende.co/emprendimiento/hernan-j-kazah-co-fundador-de-mercado-libre-una-historia-inspiradora
16- Clarín (14.05.2015). Hernán Kazah: "Argentina ha creado una marca de talento en tecnología y en ciencia". Retrieved 07.09.2017 from https://www.clarin.com/tecnologia/hernan-kazah-argentina-talento-tecnologia_0_S1jg_Ftwml.html

about the outlook for creating global companies in the region. I think we are witnessing increased stability across the region, and there is a very entrepreneurial mindset in a way fostered by the relative instability that has historically affected Latin America. I wouldn't be surprised if Argentina and Latin America continue to produce global digital and technology companies over the next two years.

How do you imagine Mercadolibre's future and the market opportunity posed by Latin America?

I think we will continue to focus on building the largest retail platform in the region, where anyone, from large retailers to individuals, can promote and sell their merchandise online across as many categories as possible. And then, about the payment and fintech aspects of the business, the focus will be on building a growing number of financial services that will interplay in the ecosystem we have created for the users of our platform.

Globant

Another success story that demonstrates the high-impact potential of entrepreneurs in emerging markets is the case of Globant. Globant is a leading company in the creation of innovative software products that appeal to global audiences. The company has been described as the place where engineering, design, and innovation meet scale, and its "consumer journeys" facilitate a profound interaction between users and brands. Globant founder and CEO, Martín Migoya, explains that "Globant is helping to give birth to a new alternative to marketing"[17] as consumers do not experience the consumer journey as a marketing strategy but think as content. The firm does not merely create websites, apps or even a unified omnichannel experience but, beyond that, it facilitates a deeper relationship with users by delivering memorable experiences that are personalized, time sensitive, and context-and-location-aware.

Globant was founded by Martín Migoya, Guibert Englebienne, Martín Umaran, and Néstor Nocetti, with their own initial capital, in 2003. Two years later, with no more than 120 employees, the entrepreneurs were selected to join the Endeavor network. In 2006, the company took a major leap in growth when Google delegated parts of their services to Globant. The successful liaison served as a quality seal, and the move sparked many more contracts with first-class companies such as Disney, Coca-Cola, FIFA, LinkedIn, and NatGeo.

In 2008, Globant closed its first round of venture capital led primarily by US-based investors. In early 2011, Riverwood Capital—a private equity firm that invests in high-growth businesses within the global technology and technology-enabled industries—led a USD 15-million investment to foster the company's strong organic growth and to support its strategic acquisition plan throughout Latin America and the United States. Englebienne, in a personal interview with ARCAP, explained the importance of choosing well your partners and recalled how Riverwood, with its team of experienced entrepreneurs, was able to provide them with significant advice throughout all major challenges. Furthermore, the alliance built trust among other investors and improved Globant's ability to obtain additional funding. Englebienne made a strong point stating that the quality of guidance and non-monetary value added, in the long run, are more important than the amount of capital offered by potential partners.

In 2014, 11 years after its launch, the company became the first Latin American IT company to be listed in the New York Stock Exchange, raising nearly USD 59 million. Today, the firm has 40 development centers and more than 6000 professionals working across 14 countries. In the second quarter of 2017, Globant's revenue reached a record of USD 99.6 million, accounting for a 24.6% annual growth.

Remarkably, 14 years after Globant's launch, the four company founders are still in the management team. When asked about their winning formula, Englebienne mentioned three crucial factors. First, to become a successful global player each firm member must be highly competitive. As the Globant co-founder puts it, "a global meritocratic style forces you to strive and deliver excellence; competition has to be part and parcel of your firm and your people." A second crucial factor has been their strategic long-term view and their ability to anticipate market events. Finally, the third factor has been the creation of an excellent working

Today, the firm has 40 development centers and more than 6000 professionals.

17- Bloomberg, Jason (05.02.2016) Digital Influencer Martín Migoya Of Globant: Reinventing Marketing With Consumer Journeys. Forbes. Retrived 26.09.2017 from https://www.forbes.com/sites/jasonbloomberg/2016/02/05/digital-influencer-martin-migoya-of-globant-reinventing-marketing-with-consumer-journeys/#7d0b528448e2 culture that facilitates “innovation, a thinking-big approach, team work, excellence, work ethics, and, ultimately, the enjoyment of the job,” which has always been a priority.

In the age of the Internet of Things—a term that encompasses just about anything that can be connected to the Internet and communicated in an intelligent fashion—there is literally no limits to the continuous growth of a company like Globant, which keeps on innovating and reinventing itself and the entire sector where it operates. When asked about the future, Englebienne pointed out that—as the company keeps growing and the brand Globant continues to gain importance across the globe—they need to focus on increasing autonomy among their international offices and creating opportunities for the members of their international multi-cultural teams.

OLX

OLX is a global online marketplace that targets emerging markets. Today, the company that was founded by Fabrice Grinda and Alec Oxenford in 2006, has 25 offices and operates in 45 countries. With 37 billion page views and 54 million listings per month, OLX is the number one shopping app in 22 countries.

The success of OLX is not merely the result of a brilliant business idea but it can rather be attributed to strategic, smart and unconventional decision making. In fact, the very inception of OLX was already characterized by unconventional thinking as its operation started in India instead of Argentina. Most entrepreneurs decide to launch their company in the place they know best, their home country. That was not true to the OLX founders, who chose to start with the biggest market available. Only four and a half years later, they added Argentina to the list of countries where they operate, which by then already included India, Brazil, and Poland. This decision was based on the belief that people are similar in all countries. As Oxenford once explained, “It’s rational to believe you know local markets, but people are alike no matter which country they are from. They usually think the same way. They have different priorities, but they all want to progress in life, and that’s what drives Internet behavior.” [18]

Undoubtedly, their smart approach also impressed investors, and Oxenford, in a personal interview with ARCAP, recalled how VC investors took their “Martian approach” as a symbol for their ambition and thoughtful decision making process. In 2007, the company raised its first venture capital round amounting to USD 10 million. Over the following years, five investment rounds followed, with Bessemer Venture Partners and Founders Fund as lead investors, raising a total of USD 28.5 million. In 2010, OLX sold a majority stake to the South African media conglomerate, Naspers, which Oxenford described as their “ideal partner.” He explained to ARCAP that they “shared the same attitude. Naspers is very entrepreneurial, has huge aspirations, understands emerging markets, and shares our cosmovision.”

The company’s rapid growth was also due to their decision to go for television advertising, another unconventional move made by the OLX founders. Despite the common belief that TV ads would not pay off—an opinion formed during the dot-com era when a huge number of internet firms were founded while still the flow of consumers was low—OLX chose a strategy of fast-paced, advertising-fueled growth. By broadcasting in 14 countries, they prevented others from taking up on the same idea and entering into competition for markets. The entrepreneurs believed that, in times of massive internet and mobile use, television ads direct consumers straight to a website or app, thus accelerating the company’s growth.

Oxenford speaks of OLX as a four-fold “wealth creator.” The platform helps people to progress in emerging markets, as users can easily monetize their goods and services, and by doing so, increase their incomes. At the same time, it allows consumers to buy goods that would otherwise be out of their reach. Oxenford mentioned the iPhone as a typical product that many people could not afford to buy brand-new, so they turn to OLX to buy it second hand. Furthermore, with its deeply local peer-to-peer service, OLX generates social capital in the communities it operates, as sellers and buyers interact and experience the value of exchanging goods. Finally, OLX protects the environment. Under the slogan “have less,” they promote the idea of passing used goods on to the next person that needs them, thus avoiding a negative impact on the environment versus the continuous production of new products.

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Despegar

Despegar is the leading online travel company in Latin America. The company was founded in 1999 and, today, it offers an impressive range of travel and travel-related products such as flights, hotel accommodation, cruises, tourist packages, entrance tickets, travel insurances, car rentals, and transfer services. As a matter of fact, after acknowledging that payment methods are very particular to each Latin American country, Despegar started to offer installment plans to its users, thus revolutionizing the way people travel.

The co-founders, Roberto Souviron, Martín Rastellino, and Ernesto Cadeiras, met at Duke University while they were pursuing their MBA degrees. Soon after, Souviron's ex-fellow-students from the University of San Andrés, Federico Fuchs and Alejandro Tamer, got on board. It was Souviron who first came up with the idea of implementing an online service like Expedia and Travelocity in Latin America. At that time, the main international online travel companies had not yet taken interest in the region. However, it was only a question of time. Thus, one of the initial challenges was to acquire enough funding for a rapid and simultaneous expansion across the region, to get ahead of potential competitors and capture the entire Latin American market. In 1999, Despegar launched its website in Argentina. The next year, the company closed its initial financing round, amounting to USD 1 million, and two months later they raised another round of USD 10 million. This allowed the company to simultaneously expand that very same year to Brazil, Chile, Colombia, Mexico, and Uruguay[19].

In 2006, the investment fund Tiger Global bought out all other investors including Merrill Lynch, Accor Group, Hicks, Muse, Tate & Furst, Sonae and Yahoo!, and, by doing so, it became the majority shareholder in the company. Tiger Global played an important role in defining Despegar's growth strategy. Yearlong experience in the international traveling sector allowed the investor to anticipate market events and conduct the firm accordingly. The firm's initial core business had been flight sales, yet, competition tightened as direct sales by airlines became more common. In response to this trend, Despegar set a diversification strategy in motion, which included the investment of USD 3 million to develop a business segment dedicated to selling hotel accommodation.[20] Currently, the agency offers accommodation in more than 192,000 hotels worldwide. [21]

In 2012, with USD 21 million raised, Despegar closed its second VC round, including investors such as Sequoia Capital[22]. That same year, the company, known for its cutting-edge technology, launched a mobile app developed by its internal IT team. Due to the tremendous success of the initiative—the app was the most downloaded online travel app in Latin America—Despegar has, indeed, become the benchmark in the region when it comes to mobile commerce. [23]

The next important leap in growth came three years later, when Expedia acquired a stake at the company worth USD 270 million, and became a minority shareholder. By doing so, Expedia managed to enter the promising Latin American market and both companies benefited from granting mutual access to their hotel databases, which in the case of Expedia amounted to approximately 200,000 hotels, and, in the case of Despegar, to some 34,000.[24]

In September 2017, 18 years after its launch, Despegar went public in the New York Stock Exchange. The stock opened at USD 29.00, and hit a peak of USD 32.63 on its very first day of trading. The company raised USD 332 million by offering 12.8 million[25] shares. Its market value is approximately USD 1.8 billion, considering the 67.2 million outstanding shares.[26] Chief Executive Officer Damian Scokin commented on Despegar's success: "One of the reasons we had such great results was that pure tech funds and funds looking for emerging market risk looked at the company, and we saw demand from both." [27] Growth expectations are huge as online travel bookings in Latin America are likely to increase with the middle-class population continuously growing and smartphones and Internet access becoming more attainable.

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27- Idem

Interview with Damian Scokin, CEO at Despegar.com

Argentina has a significant pool of talent and a number of world class pan-regional and global companies.

Can you identify 4 key elements that describe the success of Despegar?

First, we are the leading online travel company in a rapidly growing and significantly underpenetrated market by global standards. Last year online travel bookings were projected to reach approximately USD 30 billion, and they are expected to become a 48-billion-dollar business by 2020.

Secondly, we have grown along with our customers, developing significant local expertise with a deep understanding of the online business and the local travel market. Our management team has years of experience in the region within the travel, consumer, IT and consulting fields, along with other areas. This expertise has been essential in driving the growth of our business.

Third, our comprehensive product offering, combined with localized payment methods, provide us with key competitive advantages versus global players. Currently, we are a one-stop travel marketplace offering products from over 250 airlines and more than 300,000 hotels, as well as from over 900 car rental agencies and for more than 250 destinations, all across Latin America, through our award-winning mobile app and our website.

And finally, our leading mobile capabilities, underpinned by scalable technology and data analytics, give us the ability to rapidly increase our growth while maintaining platform reliability and generating valuable insights about our customers and markets.

What are the challenges Despegar will face in the future?

There are several key actions that underpin the continued growth and profitability of our business and which we should continue to reinforce, and these include, among others: 1) increase consumer engagement to grow recurring purchase rates; 2) enhance product offerings to address customers' needs in each market; 3) cross-sell to capture a higher share of wallet and drive engagement; 4) selectively increase and optimize inventory and; 5) continuously improve the customer experience.

Q: How important was the role of having prominent PE/VC investors like Tiger Global and General Atlantic besides their capital contributions?

Having prominent investors like Tiger Global and General Atlantic brings tremendous benefits, including the vast expertise on many fronts that they can offer because of their involvement with so many companies. As experienced board members, they also bring in tremendous value. And, when it comes to raise funds, these prominent investors with remarkable track records can attract other high-quality investors.

How did the VC & PE investments help you scale the operation to do your IPO?

In addition to the expertise they bring in as board members when it comes to strategic decision-making due to having participated in so many scaling processes with other companies, they help us attract key talent, thus taking our company to the next level at each stage of our growth trajectory.

What opportunities and challenges you consider entrepreneurs face today when it comes to creating new global companies from Argentina, just like Despegar did almost 20 years ago?

Argentina has a significant pool of talent and several world class pan-regional and global companies. In the technology space, in just 14 years, Globant, a digital and software company, is now a global player, and Mercado Libre, a pan-regional e-commerce company, founded in 1999, is a regional leader. The entrepreneurial spirit in Argentina is strong, and if you factor in the increased international interest in the country and the expansion of capital markets, we think there are significant opportunities ahead for more global players to appear.

Corporate Venture Capital

In collaboration with Lorena Suárez, Country Manager at Wayra Argentina

Corporate Venture Capital (CVC), as the open innovation arm of established companies, has an important role in the investment and entrepreneurial ecosystem. These investment firms can have a noteworthy impact by investing significant capital, providing assistance and strategic advice to entrepreneurs, offering the startup access to new customers by developing complementary sales channels, and providing a potential exit path.

CVC strategies are also useful instruments for corporations to reach innovation. Thus, multiple initiatives in the investment field have been created over the last years. Some examples in Argentina that can be mentioned are: Telefonica's CVC initiative, Wayra, founded in 2011; Meli Fund, Mercado Libre's corporate venture arm created in 2013; Centro de Innovación Tecnológica, Empresarial y Social (CITES), by Sancor Seguros[28] , an initiative launched in 2014; and Xpand, the recently launched Diario Clarin's corporate venture fund , created in 2016. There are also other noteworthy initiatives such as Rofex, playing a limited partner role; ArFintech, the specialized Fintech fund financed by local banks and other participants within the financial system; and Eklos, AB InBev's[29] seed investment fund.

Nowadays almost all companies are chasing innovation. and the CVC dynamics create win-win opportunities. For entrepreneurs, it is an opportunity to incorporate strategic investors adding value at every stage of the company. For organizations, it means the possibility to access disruptive concepts, to share innovation risks with other investors, to efficiently expose to markets outside their core, and to enable new partners while maximizing financial returns. As an example of this, Telefónica has developed three investment initiatives to create the necessary capabilities to support a company at every step of its journey: Wayra, Amérigo, and Telefónica Ventures. Created in 2011 as an investment instrument, Wayra is a startup accelerator whose objective is to boost the regional or global presence of early-stage companies and assist them with commercial expansion. Launched in Argentina in September of 2011, Wayra already invested in more than 50 companies locally and more than 800 globally. Amérigo serves as a network of venture capital funds that support local growing startups where Telefónica plays a limited partner role, and Telefónica Ventures, created in 2006, serves as Telefonica's corporate venture capital fund. The creation of these different types of investment arms lies in the understanding that big companies—traditionally immersed in more complex processes and structures—can instill innovative approaches into their management to create competitive barriers and to adapt to the more complex markets. Also, startups possess the ability to capitalize on their experience through scaling supported by stronger players. From these crossed and complementary needs, alliances are born adding to the business innovation, agility, scalability, and competitiveness.

CVC strategies frequently complement other corporate innovation initiatives, because R&D and/or M&A activity—as instruments to achieve innovation—don't seem to be enough to drive the level of growth companies need to differentiate or stay competitive. Internal innovation faces difficulties when it comes to emulating the startup culture inside the company. Traditional M&A tools can be inappropriate when corporations want to get closer to small startups. Merging or acquiring startups in early stage can erode some of the values parent corporations look for when approaching them. Once acquired, startups can lose their original incentives and blend into the buyer company culture. Great startups and ambitious entrepreneurs are agile, innovative, move fast, look for exponential growth; they are unafraid of making bold decisions and get excited at the prospect of disrupting industries. Sometimes, this entrepreneurial style is incompatible with the culture at big corporations.

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28 - Grupo Sancor Seguros is an Argentine insurance group with presence in Argentina and Latin America

29 - Anheuser-Busch InBev SA/NV abbreviated as AB InBev) is a Belgian–Brazilian beverage and brewing company with global headquarters in Leuven, Belgium. It has additional offices in New York City, São Paulo, St. Louis, London, Mexico City, Johannesburg, Toronto, Buenos Aires, and other countries.

Corporate Venture Capital in Argentina

While the corporate M&A and R&D internal teams focus in strategic opportunities, the CVC team adds value by analyzing a high volume of adjacent sectors. When well executed, it becomes significant to the corporation, enhancing returns with post investment value-creation, gaining exposure to new partners, new business models, and new products, and getting access to entrepreneurial talent with their additional impact in internal cultural changes. For instance, Meli Fund was born in 2013, when Mercado Libre made the strategic decision of opening its technology platform, and it began sharing its data through APIs. “The main objective of that strategy was to develop businesses around Mercado Libre’s platform and to enhance the companies that were providing services to its ecosystem. Meli Fund was born as part of this strategic decision with the objective of making investments in companies that are developing businesses, products, and services around Mercado Libre’s platform using its APIs, which can contribute to the company’s ultimate goal of improving the e-commerce experience in the region,” says Ignacio Estivariz, Head of Corporate Development. He also mentioned that the strategy can be changed over time and after gaining experience: “Last year, we revised the fund’s original strategy, which was focused on investing only in companies that developed businesses around our APIs, and we came to the conclusion that this was a bit limited. So, we added some flexibility for businesses that are not yet using our APIs or connected to our platform but that may eventually converge with some of our businesses. We have the Seed Fund for early- stage investments that are related to our ecosystem, and the Opportunity Fund, which focuses on investments in companies in later stages that might not be that close to our business’ core but that we think will eventually converge with our business. We have developed a dual strategy to achieve this.”

Some Corporate Venture Capital initiatives are targeted at extending the core activities of the company to diversify the business. Such is the case of Xpand Ventures, *Diario Clarin’s* corporate early-stage VC fund. “We invest in companies targeting exponential growth markets outside of Clarín’s core business. Xpand’s objective is to identify startups with the potential to create substantial value and to secure positive cash flow in the long term. We also aim at increasing the early-stage capital available outside of Buenos Aires by opening offices in Córdoba, Mendoza, and Rosario, fostering Argentine entrepreneurs regardless of where they live in. We invest in early-stage AgTech, IT and Biotech companies with a global extent. Our main challenge as species in the next 30 years will be the increasing food demand, pushed by a growing global population. Argentina’s core competences provide us with an exceptional opportunity to develop technologies that can disrupt the food production chain, helping alleviate this problem,” adds Vanesa Kolodziej, Xpand Managing Director.

This is also the case with CITES, as Nicolas Tognalli, its manager, states: “The corporate fund does not have a specific investment thesis. Its objective is for invested companies to leverage and/or develop products or processes across different business areas, making the Group’s value proposition more innovative and improving its competitiveness. Success today is not measured in investment profitability but through value intangibles that add value to the insurer’s products.”

Even though CVC funds are strategic long-term innovation initiatives and the maximizing of investment financial returns might not be in their core business, return-oriented strategies can be identified. This approach seems to be important when it comes to ensuring CVC fund self-sustainability and to building trust within the startup community. Maximizing financial returns aligns the goals of CVC funds with entrepreneurs' and traditional financial VC interests, because their focus is on increasing shareholder value. This characteristic creates the appropriate environment for co-investing with others. Aligned with other shareholders, return-focused CVC funds can become preferred financing partners. Also, return-oriented CVC initiatives prevent the demand off-market rights that might risk future deals for the startup (e.g.: exclusivity, call options rights, etc.) Finally, ROI orientation brings about self-sustainability over time because the fund will generate capital inflow derived from exits, making it financially independent from the corporate parent investor. As an example, Telefonica's funds pursue four main objectives: (1) capturing opportunities for Telefonica, discovering new products and services that can be integrated into the Operator Value Proposition, and offered to its clients or used by Telefonica for internal purposes; (2) identifying new products and services across different market niches, challenging Telefonica's strategy; (3) gaining access to external talent, transforming corporate culture and (4) maximizing financial return. This last goal seeks to align incentives with startups and investors and to make the fund self-sustainable in the long term.

"It is important that corporations start getting involved in the Venture Capital Industry but it is also vital that they understand the rules of the game. For example, these initiatives require a long-term vision, the company won't be able to get in and out quickly; this is a high-risk business; their control over invested companies will be limited; and they have to be ready to co-invest with other investors. Above all, they must have an entrepreneurial view towards investment and embrace uncertainty by paying more attention to the long run, not only investing in what is missing today but also in what can be missing in the future. Finally, they should develop the necessary skills in their organizations to support this strategy such as having efficient investment processes. They have to be determined and just go for it." Says Ignacio Estivariz, Head of Meli Fund.

When investing, Mercado Libre's objective is to enhance its ecosystem by investing in new technologies and services, and providing solutions to existing problems in the e-commerce ecosystem. "There's not a single measure of success, but a comprehensive one that includes different angles. Let's say one of the portfolio companies makes an exit. We will obviously participate in the financial return, which will allow the fund to continue and thus the transaction will be considered a successful investment. Yet, the main objective of the fund is to help create companies and make them grow. If they don't make an exit but they grow and end up being successful companies that provide a significant service to the e-commerce arena across the region, and we are shareholders in that company, that investment is also a successful one. We are not that much focused on the exit but on creating something that, for us, has a positive impact in the regional e-commerce ecosystem," adds Estivariz.

Finally, and especially in young entrepreneurial countries, where capital markets haven't been developed yet and higher support for early-stage and high-tech venture is needed, CVC could be a more patient and evergreen investor that adds stability to the system. In general, CVC funds do not establish an end of fund life and funding the initiatives coincides with the corporate annual budgeting process. This predictable and long-term commitment turn a CVC fund into a visible and reliable source of capital, and this gives time for the ecosystem to grow bigger and develop.

Maximizing financial returns aligns the goals of CVC funds with entrepreneurs' and traditional financial VC interests.

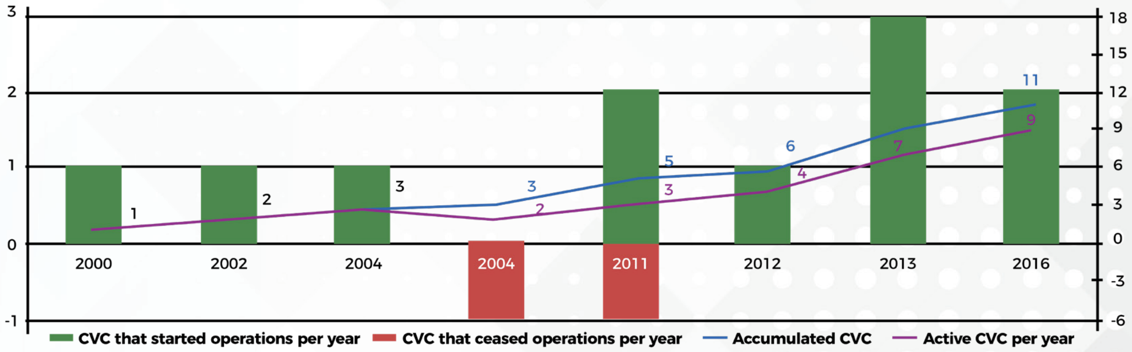
Investment Track in Corporate Venture Capital

From 2011 to 2016, the number of global new active corporate investors in the US has increased from 35 to over 500[30]. Currently, 75 of the Fortune 100 companies are active in corporate venture capital, and 41 have a dedicated CVC team. They also represent a growing source of capital, participating in nearly a third of all US venture deals[31] and in 40% of the deals taking place in Asia.

Argentina's corporate venture capital is also maturing, and even though there's an opportunity for improvement and for increasing investments, the ecosystem shows CVC activity. Over the last five years, the number of active CVC funds has increased steadily, as shown in figure 18. With 149 corporate investments and total investments disclosed for approximately USD 22 million, reaching the highest peak in 2014, with more than 40 investments. Also, corporate private investments within total Venture Capital transactions show its peak in 2016, with a 41% participation.

The number of active CVC funds has increased steadily, as it can be observed in Figure XIX.

Organic Growth Analysis
Corporate investment arms in Argentina



* The chart only shows the years in which Corporate investment arms were launched or ceased operations.

S&P Global Market Intelligence

Figure XVIII

30 - CB Insights: The history of CVC. www.cbinsigths.com. 2017
31 - https://www.cbinsights.com/research-corporate-venture-capital-h1-2016

CVC Funds with Active Portfolios

Company Name	Investment stage	Company Status	Comments	Company Type
CITES - **Centro de Innovación Tecnológica Empresarial y Social**	VC	Operating	Grupo Sancor Seguros; 9 Investments. Launched in 2014	Corporate Investment Arm
Eklos	Incubation / Accelerator	Operating	InBev SA/NV., 7 investments. Launched in 2016	Corporate Investment Arm
Incutex S.A	Incubation / Accelerator	Operating	Corporate investment arm of Santex America; 13 investments. Launched in 2013	Corporate Investment Arm
Modena Technologies Capital Partners	VC	No Longer Investing	VC arm of Werthein Group. 8 current investments, 4 prior ones	Corporate Investment Arm
Nexo Emprendedor	VC	No Longer Investing	Banco Santander Río S.A. Currently with +20 investments in their portfolio	Financial Service Investment Arm
Primary Ventures S.A.	VC	Operating	VC arm of Primary Brokers SA. Primary Brokers SA designs and develops software for the stock exchange and financial market.	Corporate Investment Arm
Xpand Ventures	Incubation / Accelerator	Operating	Diario Clarin. Launched in 2017	Corporate Investment Arm
Meli fund	VC	Operating	Mercadolibre. Launched in 2013	Corporate Investment Arm
Wayra	Accelerator	Operating	Telefonica. 52 investments. Launched in 2011.	Corporate Investment Arm

Chart I

CVC perspectives

CVC funds are excellent vehicles to facilitate open innovation processes within big companies. The biggest challenge they face is that their management must bring together two very different worlds, which need each other more than you can imagine: The corporate and the entrepreneurial worlds. The outlook is very promising, and as the first big companies—the most innovative ones—make their move into the CVC arena, many more—early adopters—will follow. Within the insurance industry this trend is already showing after Sancor Seguros created CITES.

Nicolas Tognalli,
CITES Director
ARCAP's Venture Capital Committee

We will see more CVC initiatives very soon, which will help increase the very limited offer of entrepreneurial funding in Argentina. I am sure the local CVC sector will grow substantially in the next 5 years, leading the way for other investors to jump into this opportunity by helping identify attractive startups, offering robust co-investment alternatives, and increasing the availability of international funds that will be more inclined to invest locally when the rounds are led by a local CVC fund.

Vanesa Kolodziej
Xpand Ventures – Head of Diario Clarin Corporate Venture Fund

Corporate Venture Capital as the open innovation instrument in pre-established companies plays a vital role in the investment ecosystem: The solidity and security they contribute with provide stability to the entrepreneurial journey. In addition, as large companies are slow in opening up to other forms of innovation, the dynamics of investing in new companies are beneficial to them, as this continuously exposes them to new business models, products, and services, and they provide themselves with the ability to constantly learn new things".

Lorena Suárez
Wayra Argentina & Telefonica Open Future – Country Manager
ARCAP's Corporate Venture Capital Vice-President

We believe that many companies are beginning to realize how important this industry is and are starting to pay attention. Many companies feel threatened by technology disruption and are looking for alternatives they cannot find in their own organizations in startups. We believe this can contribute to the Corporate Venture Capital development in the region. The turning point will come when companies finally decide to start doing it. It is mostly about a change of mindset.

Ignacio Estivariz
MELI Fund - Head of Corporate Development

> **I am sure the local CVC sector will grow substantially in the next 5 years, leading the way for other investors to jump into this opportunity by helping identify attractive startups, offering robust co-investment alternatives.**

Alternative Investment Funds Boosting Latin American Startups

In collaboration with Francisco Coronel, Co-Managing Partner & CFO at NXTP Labs.

While seed fund opportunities in Latin America, whether through accelerator programs or angel investors, have grown significantly over the past few years, funding options beyond the seed stage are still relatively scarce. The region's traditional financial institutions are yet to adapt their offering for technology-based, rapid-growth companies. Thus, once Latin American startups have risen their pre-series A funding, they will face real challenges to take the next step.

The number of startups having a significant impact in Latin America, like MercadoLibre or Globant, is still relatively low due to this lack of funding for startups at the growth stage, especially when it comes to raising Series A and Series B rounds of funding. But there is good news.

With Latin America increasing its Internet penetration (which as of 2016 is at 62.3%, 12.2% higher than the global average), and a steady rise in companies creating high-impact solutions for the region's most established industries, investors around the world are starting to take an interest in the region.

Many of these investors have started taking unique approaches towards empowering the startup fundraising scene in Latin America. And most of the new initiatives we're seeing are focused on alternative investment funds, an approach that promises stronger returns, reduces volatility, and hedges against inflation (a constant battle in Latin America). Here's a look at just a few of these alternative investment funds for startups that are taking off in the region.

Parallel funds serving high-growth startups in Mexico

In 2009, regulators in Mexico introduced *Certificados de Capital de Desarrollo* ("Structured Equity Securities" or "CKDs") to help mitigate the effects of the global financial crisis, create new sources of capital for Mexican companies, and support economic growth.

Under the CKD structure, new funds aimed at investing in Mexican technology companies with either high growth potential or innovative business models have emerged. Diego Serebrisky and Rogelio de los Santos, who first invested[32] USD 70 million in startup companies under the name Alta Ventures Mexico Fund I, recently announced their plan to invest approximately USD 50 million more under the name Dalus Capital. [33]

With a combined 40 years of experience investing in some of the most innovative, high-growth companies in Mexico, Dalus Capital is part of an investment initiative that also includes a parallel fund based in Canada which will, collectively, invest around USD 100 Million. This fund will not only generate new jobs in high-growth sectors, but it will also drive the technological advancement of some of Mexico's most established industries.

Another leading venture capital fund, IGNIA, created an international parallel fund to invest alongside its Mexican CKD fund. The firm, which strives to invest in high-growth enterprises targeting the 70% of the population at the base of the socio-economic pyramid in Mexico, received funding from Canada's Sarona Frontier Markets Fund to fuel the growing ecosystem of entrepreneurs in Mexico.

Collectively, Dalus Capital and IGNIA have invested in some of the most successful startup companies in all Latin America. In Mexico, they've supported Series A and B rounds of funding for companies like mobile payment card reader, Clip, who was able to raise over USD 8 million for their Series A round, and P2P lending platform, Kubo.financiero, who successfully raised USD 7.5 million for their Series A round. Abra, a blockchain mobile wallet and payment startup, is another company that was able to raise an undisclosed amount for its Series B thanks to funds like these which are focused on funding the later, growth stages.

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32 - https://techcrunch.com/2012/08/21/alta-ventures-70m-fund/
33 - https://lavca.org/2016/10/06/dalus-capital-launches-us50m-ckd/

Support for subsidiary funds

Subsidiary funds, which are commonly used for special legal treatment, tax benefits, or simply because they are investor-friendly, are also on the rise in Latin America. Many governments in the region are supporting the incorporation of subsidiary funds to facilitate the development of the region's entrepreneurial ecosystem.

BNDES, the most active lending partner in Brazil, recently launched CRIATEC 3, the largest local venture capital firm in the country, focused on investing in early-stage technology companies. Other firms like Redpoint, Qualcomm, and Kaszek Ventures have partnered up to develop funds to invest in Brazil and in the rest of Latin America.

In Chile, CORFO (*Corporación de Fomento*), has implemented its own line of financing to boost the country's entrepreneurial community. In Chile, VCs firms are incorporated as FIPs (Fondos de Inversion Privada) which are closed-end investment funds similar to those in Brazil but less regulated. CORFO has just announced their support for five funds which will jointly reach USD 67 million. These funds include Social de Americas Capital, Fondo Alaya II, Alerce Venture Capital, Mountain Nazca Ventures, and NXTP Labs.

In Mexico, INADEM (*Instituto Nacional del Emprendedor*) has approved a co-investment program involving more than 30 funds in the last four years. Another initiative to watch in Mexico is the Pacific Alliance Venture Capital Fund, which is supported by INADEM & the Inter-American Development Bank-Multilateral Investment Fund, that will reach USD 100 million. This regional fund will invest in Mexico, Colombia, Peru, and Chile.

Finally, Argentina is home to FONDCE (*Fondo Fiduciario Para el Desarrollo de Capital Emprendedor*), that is the National Trust Fund for Entrepreneurial Capital, which was recently created as part of Argentina's new Entrepreneurship Law. The law promotes tax incentives for investment in entrepreneurial ventures, early-stage loans, and other means of support for new business creation in Argentina. FONDCE will be comprised by 10 funds, 40% of which will account for public investment. The funds will have a minimum of USD 30 million each and will be run by private fund managers who select the projects.

Another approach: Mixed funds

In Latin America, there are also new "sidecar" funds, or co-investment funds, oriented to co-invest in specific verticals such as Fintech, Agtech, and Edtech. For instance, Arfintech is a fund that was recently created by Argentine bankers to redefine the financial services market through technology-based solutions and agile product development.

Argentina is home to FONDCE (National Trust Fund for Entrepreneurial Capital), which was recently created as part of Argentina's new Entrepreneurship Law.

Feeder funds are also not uncommon as a means to accommodate investments in a master fund.

NXTP Labs, has actively invested in early-stage technology companies in Latin America for the past six years. They've implemented a combination of alternative investment funds in order to appeal to the variety of investors in the region and have received capital from Multilateral Investment Fund (MIF), Member of the IDB Group as well as from the IFC (International Finance Corporation – World Bank).

Additionally, they've structured the following alternative investment funds to help companies in Latin America expand their businesses beyond the seed stage:

- **Subsidiary funds** co-investing with INADEM in Mexico and CORFO in Chile.

- **Sidecar funds,** working in verticals such as Agtech and Fintech to co-invest with farmers, bankers & corporate investors looking for opportunities in technology, innovation, and digital transformation.

- **Feeder funds and parallel funds** in Argentina to boost investments from qualified investors, such as the private banking sector, pension funds, and insurance companies.

Alternative investment funds are helping to spread funding opportunities beyond purely digital companies toward companies that use technology to close the gaps in traditional industries across Latin America—such as agriculture, financial services, media, tourism, retail, and education. While the number of venture capital deals is still far behind that of India or China, the region is still seeing record numbers of deals. Plenty of untapped opportunities remain for those willing to implement a more innovative approach to fund Latin America's flurry of new technology companies.

Alternative investment funds are helping to spread funding opportunities.

Impact Investment

In collaboration with María Laura Tinelli, Director & Founder at Acrux Partners Ltd. and Argentine's Task Force Representative at GSGII

Impact investment seeks to solve issues within the real economy and to generate returns as well as a positive impact on the society and the environment. To achieve this, it analyzes the traditional risk and return variables, but it also factors in, at the same level of significance, the analysis of the social and environmental impact of the investments made.

Impact investment has accompanied the private and venture capital growth process in Latin America, particularly in those markets where a greater private investment development took place. According to a report by LAVCA ANDE, 78 groups that made impact investments in Latin America between 1997 and 2016 were identified. Most of these investments (80%) were made after 2007.

According to the **Global Impact Investment Network,** the global impact investment market today accounts for approximately USD 114 billion in assets under management. Latin America represents the fourth destination for investments worldwide, accounting for 9% of the total (USD 7.2 billion). Brazil, Mexico, Colombia, and Peru lead the region, leaving Argentina among the most lagging countries, with a small yet growing impact market. Our country poses several opportunities, among which we can highlight the growth of viable impact companies and of the entrepreneurial ecosystem in general; the establishment of two funds and an impact accelerator; the development of the first Social Impact Bond, the progressive promotion by the Government of this type of investment through fiscal incentives, among others; the interest in this market showed by large companies, as investors and by incorporating triple-impact companies in earlier stages in their production chains.

Among the challenges, we find the non-categorization of impact investments within a niche; a fiscal and regulatory framework that facilitates the growth of both companies and investment; including impact as a fiduciary duty of the country's investment and pension funds; the large number of impact companies in early stage; the shortage of patient and mixed capital instruments; the short history of this type of investments in the country.

There is a **clear intention to invest in the following sectors:**[34] Affordable housing, Financial services for the base of the population pyramid, Education, Inclusive health, Recycling, Renewable energy, Sustainable agribusiness, Collaborative economies, Digital market platforms.

As for the **minimum and maximum amounts that the sector in Argentina would be willing to invest** in impact companies, these range from USD 50,000 for companies in seed capital stage, up to USD 5 million with **average tickets between USD 300,000 and USD 1 million in Argentina.**

In contrast, according to the LAVCA ANDE[35] report, the **average investment ticket in the region is USD 1.7 million** and 64% of those surveyed declared average investments of USD 1 million or less.

A joint and coordinated effort is required to promote structural, regulatory, and fiscal changes that make it possible for the capital flow to be catalyzed towards investments that analyze risk, return, and impact. In this sense, the role of the government is essential, providing investment in impact vehicles, non-reimbursable contributions, or financial guarantees to contribute to growth of market capabilities and key players. In addition, it is essential that both private and institutional investors lead by example, including in their fund manager mandates a duty to show regard for the social, environmental and good corporate governance impact of the investments they manage on their behalf, as well as due reporting on this topic. Finally, it is essential for the academic sector to train their students in line with this new way of doing business, fulfilling their roles in shaping both business and government leaders.

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34 - Based on the applications to the impact fund for Argentina, Paraguay, and Uruguay, called by MIF in 2016.

35 - Aspen Network of development Entrepreneurs, LAVCA, LGT Impact Ventures, El Panorama de la Inversión de Impacto en América Latina, August 2016.

Interview with Maria Julia Bearzi, Executive Director at Endeavor Argentina

Endeavor is a non-profit organization that aims at supporting high impact entrepreneurs around the world. Launched in Argentina in 1998, Endeavor counts with "Endeavor Catalyst" as an innovative co-investment vehicle designed to support Endeavor Entrepreneurs with their equity financing rounds and contribute to the long-term sustainability of Endeavor.

Endeavor Catalyst is a fund that has invested in Argentine companies. Could you mention some cases you consider to be iconic?

Up to 2016, Endeavor Catalyst has invested in 54 companies from 18 different countries, along with some of the most important Venture Capital funds such as Accel Partners, Crunch Fund, Kaszek Ventures, and Atomico. During 2016, over twelve investments were made in Endeavor startups. The Argentine company IguanaFix, founded by Matías Recchia and Andrés Bernasconi, was one of them. It's a Marketplace that makes the hiring of home and car services simple, transparent, and safe through a network of service providers who offer a standardized service to end users. Last year, the company completed its second investment round, led by Qualcomm Ventures, closing at USD 16 million, and to which Endeavor Catalyst contributed with USD 700,000. Iguanafix has shown a 30% monthly growth in less than two years since its founding and has accumulated more than 25,000 service providers on the platform.

Another current and iconic case was Hickies, the company led by Argentine entrepreneurs Gaston Frydlewski and Mariquel Waingarten, who revolutionized the shoelaces industry. It is a knot-free system that fastens, stretches, and stays in place, without the need to tie or untie. The company –headquartered in New York– continues to grow in the United States since its founding in 2012, and it is getting stronger in the Latin American market through Topper. With the involvement of Endeavor Catalyst, the company secured a USD 10 million investment in November 2016 from strategic investors within the industry.

A previous yet iconic case was Jampp, a mobile marketing platform founded by Martín Añazco and Diego Meller. The company raised USD 7 million in a round led by Highland Europe, with the participation of Innova, NXTP Labs, and Endeavor Catalyst. Based mainly in London and Buenos Aires, it is already available in several locations in North America, Europe, Asia, and Africa. Other startups that also received investments were Globant, Satellogic, and Jampp.

Endeavor is a non-profit organization that aims to support high impact entrepreneurs around the world.

What is Endeavor Catalyst role?

Endeavor Catalyst was born in 2012. It is a passive co-investment means that makes it possible for Endeavor to –globally– invest in the entrepreneurs within the network with a neutral and unbiased approach. All the companies receiving this co-investment by Catalyst are already working on major growth plans both in the country and abroad. That is the main objective of this fund: To work as a multiplying force by providing new equity sources for entrepreneurs seeking to accelerate their growth plans.

This goal is strengthened thanks to the network of investment funds that keep a close relationship with Endeavor, showing a great interest in the selected entrepreneurs. What conditions must the entrepreneur meet to be supported by Endeavor Catalyst? The company must be led by an Endeavor entrepreneur, the round must be of at least USD 5 million, and it must be led by a qualified and institutional investor.

With more than 14 years of presence in Argentina, could you share your insights regards the investment context in Argentina and how you see the future scenario?

Argentina is known for its production of large unicorns. There are four unicorns that were born in this country: Mercado Libre, Globant, OLX, and Despegar. The panorama is very encouraging, not only because these companies position the country as a source of new companies, but also because of the approach the public sector has just started to take. It is very important to generate this atmosphere of confidence to promote entrepreneurship and encourage investments. For the first time, efforts are being made to foster this. However, access to investment is still a constraint to create and develop startups and, in particular, to those of high impact, which almost exclusively depend on international financing. I think there is a clear opportunity for digital transformation projects, which are starting to have an impact on the agri-food, financial, energy, biotechnology, and logistics industries. Investors are paying special attention to the development of startups based on Internet of Things (IoT).

We also see how big companies are becoming investors. Mercado Libre, Globant, and IRSA are companies that have invested in entrepreneurs. And they not only bring capital in, but also their know-how, experience, and management skills to the company in which they invest.

We encourage the investment in this sector of the economy at all our meetings and events, such as the Endeavor Experience event, through activities such as Conecta Inversor, which brings together entrepreneurs with potential investors and companies.

What do you think are Argentina's competitive advantages? And which areas should be improved to facilitate the development of a private investment ecosystem?
Although it may sound clichéd, Argentine talent is very well regarded both globally and locally. That explains why so many Argentine entrepreneurs have succeeded in the last 20 years, regardless of the economic or political circumstances of the country. Global companies were able to arise here, and there are certain businesses that offer a bigger opportunity in Latin America than in the United States. In terms of public agenda, I believe that the regulatory development in favor of entrepreneurship our country has had, such as the Entrepreneurship Law and the Simplified Joint Stock Company (SAAS) Law, will promote a more virtuous entrepreneurial ecosystem. On the one hand, more people will feel encouraged to be entrepreneurs and to take risks so as to make their businesses grow and, on the other, it will motivate local and international investors to allocate their funds to entrepreneurial projects.

In this sense, the development and promotion of organizations such as ARCAP is key in current times, as it provides support for investors in general, both institutional and private, who wish to invest in entrepreneurs.

Overview of Seed Capital in Argentina

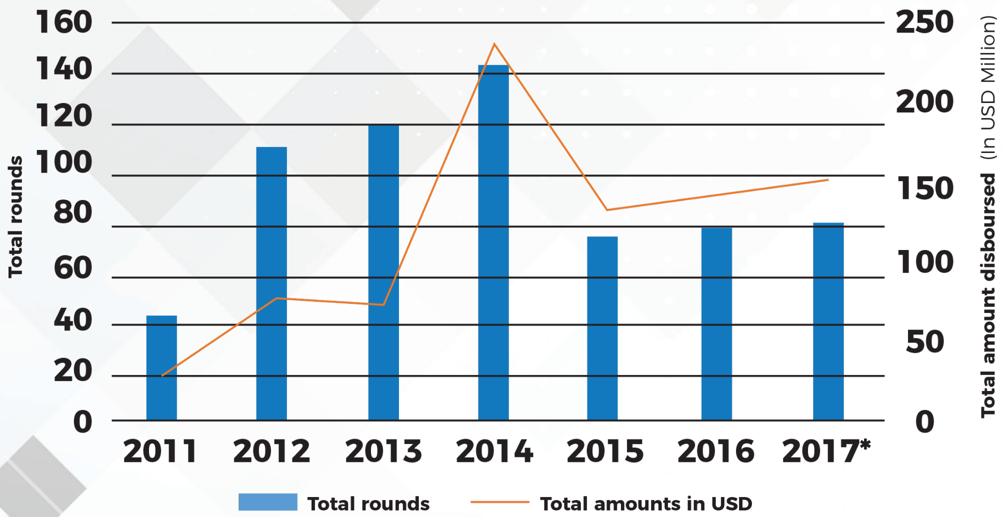
By Latin American Observatory of Entrepreneurial Financing. Universidad Austral.

In the early stages of a venture life, entrepreneurs look for ways of financing a range of exploratory, initial, and startup activities. These activities might include, for example, assessing the size of the market, developing the business plan, building or tuning-up a minimum viable product, etc. The initial sources of financing will typically cover entrepreneurs' personal savings, the support of family and friends, and a range of bootstrapping techniques, namely the use of personal sources of financing (e.g., credit card financing, personal loans). In parallel to these internal sources, several external sources, known as seed financing, are increasingly available to entrepreneurs. Seed financing sources cover a multiplicity of agents including business angels, accelerators and incubators, venture capitalists, corporations, and government-sponsored programs. From the perspective of seed investors, early access to startups represents a relatively low-cost access to a risky, though very attractive, opportunity.

Online marketplaces for crowdfunding and angel investment sites can also be recognized as part of the seed financing phenomenon. The amounts of seed financing, as we will see below, are relatively tiny if compared with sources analyzed in previous sections. But seed financing still constitutes a vital component in the entrepreneurial venture ecosystem, for example, as a source of deals for later venture capital or an eventual opportunity for private equity investment. This section will focus on the presence of these investors in Argentina and their characteristics.

Seed financing still constitutes a vital component in the entrepreneurial venture ecosystem.

Number of seed financing rounds and total funds disbursed (2011-2017)



*Estimated.

Source: Latin American Observatory of Entrepreneurial Financing, Universidad Austral, and ARCAP

Figure XIX

Seed financing is a diverse phenomenon, and the measurement of its magnitude is quite a challenging task. Here we focus in covering funds committed by the most renowned incubators, accelerators, venture capital seed funds, and angel groups residing in the country. We do not include private investments that, while resembling seed rounds, are kept private and remain quite invisible to the entrepreneurial finance ecosystem[36].

Figure XIX shows an estimated trend on the total capital disbursed by investors residing in Argentina, in terms of seed rounds[37]. Total funds peaked in 2014, when approximately USD 230 million were allocated to seed rounds, accounting for 144 rounds. These figures have slightly declined in the last three years, and in 2017 the number of rounds is estimated to reach at least 80 rounds closed, amounting to a total of USD 150 million in financing.

The amounts disbursed per seed round shows significant variability. The characteristics most rounds have in common are best represented by the median and percentiles, provided in Chart II. While the median seed round reaches nearly USD 50,000 there is also a third of the rounds that are closed in an amount equal or below USD 25,000, and another third of rounds closed above USD 165,000. Many these rounds is closed combining convertible notes or similar convertible agreements such as a Simple Agreement for Future Equity (SAFE)[38].

Another interesting statistics is related to the size of Series A rounds, which can be illustrative of the amount of funds available for subsequent stages. Investors report closing Series A rounds up to a median of USD 4.3 million (with a third of rounds between 3 million and 8 million) and, in many cases, these rounds are follow-on financing rounds for the same startups that were seeded earlier. Nevertheless, the low number of follow-on rounds in the local market is usually considered the weakest link in the chain, since in some cases this means the loss of promising startups.

Seed Round Amounts in USD by Type of Round (2011-2017)

Type of round	Percentile 33	Median	Percentile 66
Seed	**25,000**	**47,500**	**165,000**
Series A	**3,000,000**	**4,350,000**	**8,000,000**

Source: Latin American Observatory of Entrepreneurial Financing, Universidad Austral, and ARCAP

Chart II

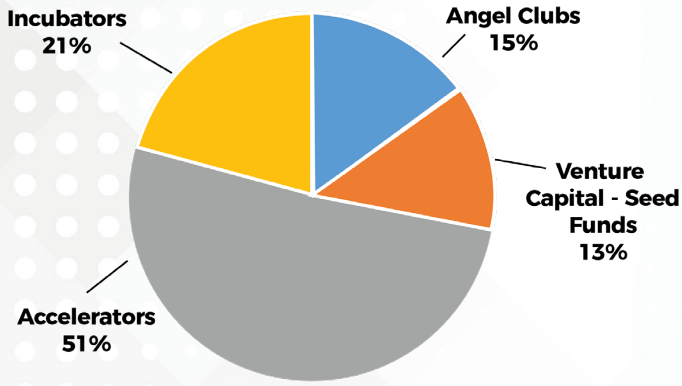
While the figures above show a certain general pattern in terms of the scale of seed financing, the entrepreneurial finance scene is comprised by different types of investors, each one with its own distinctive characteristics. Figure XX shows the participation on the total number of rounds by investor type. The figure suggests that 51% of the rounds involved accelerators. Seed funds from incubators represent another 21%. Angel clubs represent 15% of the rounds. Finally, rounds from venture capital seed funds represent the remaining 13%. Each of these types of investors are described below.

36 - Seed rounds raised abroad by startups with Argentine founders are not considered here. Likewise, seed rounds disbursed by government programs are not included. Refer to the following section for more information on government programs, and to the Methodology section for more information on data collection.

37 - The graph includes rounds involving incubators, accelerators, angel groups, and venture capital seed funds. Follow-on rounds prior to Series A rounds are being included, if available.

38 - A SAFE is an agreement similar to a convertible note in that it establishes a future conversion of the amount invested to preferred shares in the event of a subsequent round. While the standard convertible note is a debt agreement with a conversion clause, the SAFE is not a debt agreement, thus avoiding some issues related to that. Both types of agreements typically establish discounts on the conversion valuation and a valuation cap for seed investors to preserve the early investor stake in case of a high-valuation round.

Rounds by Seed Investor type. Percentage of Rounds by Investor Type (2011-2017)



Source: Latin American Observatory of Entrepreneurial Financing, Universidad Austral, and ARCAP

Figure XX

Incubators and accelerators

Some of the most important players in the seed financing activity are startup incubators and, more recently, accelerators. Startup incubators constitute a highly institutionalized type of organization within the entrepreneurial ecosystem, with an extensive track record in Latin America and Argentina. These organizations are set up by private individuals or corporations, and, in the last decade, also by governments (as we will describe below). Their aim is to help nascent ventures throughout the inception stage. Most incubators, but not all, also provide seed financing and take in exchange some form of participation in the business. Startup incubators usually provide office space (mostly co-working spaces), mentoring (in a structured fashion or on demand), and access to advice by incubator founders and a mentors´network.

According to survey dating back to 2012 conducted by AIPyPT[39], 36 incubators were found in Argentina. These incubators were largely the result of initiatives developed by universities, with the support of both the local and national government (see more on the government role below). A survey conducted for this report resulted in 64 active accelerator programs or incubators carrying out some kind of seed financing activity, and an additional number of 370 incubators that are officially registered at the Ministry of Production[40]. These numbers suggest that the acceleration activity has at least doubled in the last five years.

Internationally, the term accelerator is being increasingly used to distinguish a particular type of incubation, although in practice it is still used as a synonym with incubation. Accelerators usually imply a fixed-term, cohort-style incubation program—also referred to as "boot camp"—throughout which a selected group of startups receive structured mentoring and seed investment, and get access to networking events, among other perks, and this process culminates in a public event or "demo day" where startups pitch their projects to a pool of potential investors[41]. Nevertheless, there is a wide variety of programs in place in Argentina running various forms of business acceleration.

Chart III lists some of renowned accelerators and incubators in Argentina, which are currently involved in some type of seed financing activity or are conducting fund raising activities[42]. There is a variety of organizations in the list. Nxtp, for example, is one of the biggest players, having carried out more than 200 investments across LatAm. Nxtp runs a cohort-style acceleration program, and it typically invests in small rounds of USD 50,000 out of which USD 25,000 are provided as services. It has also carried out a number of larger (follow-on) investments.

According to public information, at least two-thirds of their investment rounds account for over USD 350,000, and one-tenth exceeds the total of USD 1 million. Another renowned player, Wayra, also has a large international portfolio including more than 50 investments in Argentina and more than 800 worldwide. With a variety of investments in their portfolio, our figures suggest that their median round amounts to USD 250,000 and rarely exceeds USD 1 million, surpassing the typical accelerator participation. While in many cases the investments are made in exchange of equity, another large number of their deals have been implemented through convertible notes.

A number of other organizations offer different models. Some of them are focused in heavy mentoring, investing, and partnering actions.

These are known as company builders and Quasar Ventures is a clear example. Quasar has already closed a number of rounds above USD 1 million each. Some others have acceleration or pre-acceleration activities and help startups reach angel investor networks, or facilitate access to government-sponsored grants, such as the grants offered by the National Agency for the Promotion of Science and Technology (ANPCYT) or by the National Ministry of Production, among others. There are also initiatives specialized in particular sectors, for instance, agribusiness (e.g., Nest), science-based startups (e.g., Gridx Exponential), consumer goods (e.g., Eklos), and Social Impact or Sustainability (e.g., Njambre). Finally, there are official accelerators such as Incubate, formerly known as Incuba or Incubatech. The phenomenon has now significantly expanded to many provinces across the country, notably Córdoba, Mendoza, Santa Fe, and San Juan, as shown in Table 9.3.

The phenomenon has now significantly expanded to many provinces across the country.

25 Renowned Accelerators and Incubators with Seed Financing Activity in Argentina

City and Name	Foundation year	Market / Focus
Buenos Aires		
Nxtp	2011	Tech, Education, Bitcoin, E-Commerce, Finance, Venture Capital, Automotive, Mobile
Wayra	2011	Mobile, Tech Financial Serv, Education, oT, Big Data, Cloud, Fintech, IA, CiberSecurity
Incubacen	2003	Technology
Overboost	2012	Mobile · Startups · Big Data · Incubator
Incubando Salud	2011	Health
Quasar Ventures	2012	Internet, Software
Njambre	N/A	Social Impact and Sustainable Development
ITbaf	2008	Technology
Eklos	2016	Consumer Goods
IncuBAte	2004	Design, Social, Tech, Science, Tourism, Gastronomy, Agro, Communication
SocialLab	2010	Social Impact
Vrainz	2009	Internet and mobile technology
GridxExponential	2015	Science
Córdoba		
FIDE (Fundación para la Incubadora de Empresas)	1997	Renewable energy, Design, IT B2B/Enterprise, e-commerce, Finance,
Incutex	2012	Mobile, Software, Software Development
Xpand Ventures	2017	Agtech, Insurtech, Fintech, e-commerce, and Media.
Mendoza		
Fundación Estudios Inteligentes		Education, IT, I+D
Agilmentor	2017	Mobile, Mobile Technology, Tech Development, Tech Transfer
La Pampa		
Incubatec	2007	Technology-related projects
La Plata		
La Plata Hub	2013	Technology-related projects
Santa Fe		
Glocal Managers		Agribusiness
Cites	2013	Technology-related projects
Greendemia	2017	Social Impact. Tech startups
San Juan		
Nerdcube	2015	IT, Tourism, B2B

Source: Latin American Observatory of Entrepreneurial Financing, Universidad Austral, and ARCAP

Chart III

39 - Asociación Argentina de Incubadoras y Parques Tecnológicos, and Universidad Nacional del Litoral Relevamiento Periódico de Incubadoras, Parques y Polos Tecnológicos del País, 2012
40 - See the full list at http://www.produccion.gob.ar/red-de-incubadoras
41 - See Cohen and Hochberg (2014), Dams, Pasquini and Sarria Allende (2016)
42 - This is a non-exhaustive list of the accelerators and incubators that provide some form of access to seed financing in Argentina. We have selected cases for which public information was available. In some cases, accelerators have offices in more than one city, yet, only one of their locations was chosen to be included on the list.

Angel Investors and Angel Clubs

Angel investors are affluent individuals who, acting on their own or in groups, provide capital to ventures, usually in exchange for equity or through a convertible debt. While the term "angel" certainly has a historical connotation, referred to the role of investors as saviors of ventures that would shut down without their support (such as the role of "angels" in Broadway theater shows), the current angel activity is recognized both as a profit-seeking activity but also as an activity pursued by many experienced individuals who see an opportunity in getting involved in a business and instill it with their knowledge and connections. Other individuals might see angel investment as a way of staying updated on the latest advances in their market or business arena, or use the opportunity as a way to further increase their connections in the entrepreneurial world. All in all, angel investing is an activity that goes beyond pure monetary returns.

An added dimension of this activity is related to the way in which angels find startups to invest in, and the way in which those deals are structured. Since startups seeking seed financing are not necessarily as easily visible as publicly-listed firms are, angels obtain information on opportunities by attending to demo days and conferences, or through their own network of angel investors. Moreover, many angel investors prefer to diversify their investments and split their time commitment by inviting other angels to join the financing rounds or as syndicated investments. These two dimensions have stimulated the creation of business angel groups, clubs, or networks.

In general, angel groups organize many regular meetings where startups pitch their investment opportunities. Depending on the case, the groups might also have a dedicated staff in charge of activities such as selection or pre-screening of deals, organization of meetings, and even an organized due diligence procedure when there is interest in a given startup.

In Argentina, there is still a reduced number of angel groups, but the activity in this sector is increasing, with various new emerging groups.

One of the most well-known clubs is the IAE Business Angels group, which is associated with the IAE Business School, and the Naves Competition. The latter is a competition that works under a pre-acceleration model, including a set of specific courses and mentoring sessions, and it takes place in many provinces across the country. This club has already screened at least 1200 projects and invested in 32 startups since its foundation in 2005. Other well-known group is IG Business Angels Club, which reports to have screened 1000 projects and invested in at least 30 startups. Cygnus Angels and Emprear Business Angels are groups founded between 2013 and 2014 and which report a slighter higher investment ratio: 12 investments out of 70 screened, and 14 invested out of 100 screened, respectively. In Córdoba and Mendoza, there are other networks, namely businessangelsclub.co & ventures and Startup Mendoza, respectively.

Renowned Angel Clubs in Argentina

Angel Club Name	Web	Foundation year	City	Projects screened	Invested Startups
Club de Business Angels del IAE	businessangelsclub.com.ar	2005	Buenos Aires	1200	32
Club de Inversores Ángeles IG	www.igangels.com	2007	Buenos Aires	1000	30
Emprear Business Angels	businessangels.emprear.org.ar	2013	Buenos Aires	70	12
Cygnus Angel Club	cygnusangelclub.com	2014	Buenos Aires	+100	14
businessangelsclub.co & ventures	businessangelsclub.co	2016	Córdoba	5	0
Startup Mendoza	startupmendoza.org	N/A	Mendoza	21	5
Nest	www.nesters.tech	2017	Santa Fe / Buenos Aires	60	0

Source: Latin American Observatory of Entrepreneurial Financing, Universidad Austral, and ARCAP

Chart IV

Seed VC Funds

Another source of seed financing comes from Venture Capital (VC). Essentially, Venture Capital funds differ from angel investors in that, in the former, funds are raised from third parties (LPs) and managed by a professional investor (GPs), while in the latter, angel investors invest their own funds (see more under the Section Venture Capital Activity). Traditionally, VC funds target startups at a more mature stage of development and invest higher amounts than seed financing, thus leaving earlier financing stages to angel investors and other sources we have discussed above. In the last ten years, early stage VC funds have emerged. As a result, the traditional division between VC investments and angel investments has been blurred.

Argentina was not an exception, and micro vc-funds targeting seed investing have arisen. Some examples are the Cygnus VC early-stage fund, the Inspirit Angels Fund, Patagonia Ventures, and Jaguar and Enzime Capital. Cygnus, for instance, has closed 28 rounds in 23 startups since 2013, and has already achieved two exits. In the case of Patagonia Ventures, they have closed 22 rounds and achieved nine exits.

Government

The involvement of the government in seed financing activities generally can be explained as a way to foster both innovation and productivity. Startups are a major catalyzer of innovation, even more than established corporations, so it is natural for the government to boost activities that can potentially translate into an increase in productivity and economic welfare. On the other hand, because innovations are spilled over a number of activities with a positive impact, and because many startups are unable to transfer their spillovers to the economy, there are reasons to consider that the level of startup activity that is privately generated could be sub-optimal[43]. On the basis of these arguments, governments throughout the world have become involved in stimulating entrepreneurial activity in different forms. Latin American governments, and the Argentine one in particular, didn’t stay out of this trend, and initiated a number of activities to encourage entrepreneurship and support seed investment, providing support to incubators and accelerators, launching their own accelerating programs, and providing direct financial support to startups and startup investing funds. Undoubtedly, a major recent event in this respect was the enactment of the Entrepreneurship Law in April 2017, which set out a new regulatory framework towards the encouragement of entrepreneurial activity and entrepreneurial investment. We will review some major governmental actors and some aspects of said law in the following sections.

In Argentina, one of the traditionally recognized player in terms of financing has been the national government through the National Agency for the Promotion of Science and Technology (ANPCYT). The Agency has traditionally run a number of specific funds and programs, including, among others, non-reimbursable grants for startups within the applied sciences arena (the FonCyt fund), direct support for technology startups (the Fontar fund), and support for startups related to the software industry (FonSoft). Just to mention an example, the PICT-startup program provides around USD 55,000 per year in grants for startups with a scientific background. There is large number of programs and the amounts of the grants vary according to the specifications of each of them. Undoubtedly, the Agency has been a major stimulus for incubation activities.

Another traditional player within the national government has been the Ministry of Production. The Ministry runs several programs to foster entrepreneurship, such as the PAC emprendedores program, which grants amount to nearly USD 25,000 to cover investments in machinery and equipment. A related program, Incubar, supports the creation of incubators through free courses and certifications.

The government of the City of Buenos Aires has been another player in this respect. It is worth mentioning the incubation program, Incubate (formerly known as Incuba), which is running its 8th edition in 2017. While in its inception this program was exclusively focused on high-tech startups, it now covers three categories of startups (design, tech, and social) across three incubation groups, and it is planning to expand its program into 7 groups in 2018. Since 2014, the government has been running a program to support local accelerators through grants and a co-investment program. In terms of the latter, it has already supported nearly 30 startups with varying amounts and a median of USD 25,000.

The Entrepreneurship Law, discussed under the Regulatory Framework Section, sets out rules towards the encouragement of entrepreneurial

The traditional division between VC investments and angel investments has blurred.

activity and the fostering of entrepreneurial investment[44]. Among the former, the simplification of incorporation procedures and the creation of a new special legal entity for startups are noteworthy. Also, many tax-exemptions related to startup-related investments, the regulation of crowdfunding, the creation of a registry of startup capital-related institutions, and various provisions on the role of the national government in terms of direct investment in these institutions, are also worth highlighting. For example, the government is able to co-investment in funds of funds (see VC section above for more information) and it is currently introducing a program to directly support accelerators, including non-refundable funds for operating expenses and funds to be used as part of co-investments in startups.

Other Sources

The range of seed investment actors is completed with corporate investors and other forms of crowd-based financing.

CVC investment has been reviewed in the previous section. In terms of seed activity, established firms are joining the startup ecosystem and actively investing in new ventures. This familiarity with entrepreneurial financing poses several advantages for them. Unicorns such as Globant and MercadoLibre are well-known for their seed corporate investments.

In terms of crowdfunding, there is an increasing number of platforms taking an active role in funding startups. In addition, the 2017 Entrepreneurship Law, which has been mentioned above, also includes a specific section on this matter, and it is currently under review. As a result, this activity is expected to grow fast in the near future.

International crowdfunding websites have been repeatedly used by a many startups, and the model has been replicated by a series of local sites. Among the international sites, examples worth highlighting include kickstarter, indiegogo, and idea.me. As an example, Bluesmart, the well-known Argentine startup that produces intelligent luggage, has raised USD 3.5 million in two crowdfunding campaigns through indiegogo. Among the Argentine sites, some currently active projects that can be mentioned are: Crowdium (focusing on real estate projects), Wuabi (focusing on agribusiness), Sesocio (with a variety of projects), and Mercado de Innovación Argentina (which is a recently launched initiative of the National Government through the Ministry of Science, Technology and Innovation).

The Entrepreneurship Law, discussed under the Regulatory Framework Section, sets out rules towards the encouragement of entrepreneurial activity

43 - See for example, Lerner (2010), Minnii (2008)
44 - Complete text of the law: http://servicios.infoleg.gob.ar/infolegInternet/anexos/270000-274999/273567/norma.htm

Future Outlook

Seed investment in Argentina
Diego González Bravo
Seed Capital Vice-president and ARCAP Executive Director. Managing Partner at Cygnus Capital

Argentina is one of the countries in the region that generates the highest number of successful projects but, in terms of venture capital and seed capital investment, our country is well below the region's average.

In the last fifteen years, the political and economic conditions of our country have provided little help in this regard, although that trend started to change as of 2016.

But, despite the adverse conditions and thanks to the hard work of good entrepreneurs with success cases, several players have begun to take an active role in early-stage seed investment within the last 5 years.

On the one hand, the NXTP and Wayra (Telefonica Group) accelerators were the first to show relevant activity - both in terms of transaction volume and AUM - and they somehow have been market makers within our seed investment ecosystem. On the other hand, in the absence of institutional VCs, angel investors have certainly had a very significant role, taking up the risk and investing in the initial rounds of startups.

The Angel Investors Clubs, although there are a few, have been other seed investment protagonists in our country (IAE Business Angels, Emprear Business Angels, and Cygnus Angel Club are the most relevant cases).

Finally, Micro VCs or Angel funds are other players that have emerged in recent years, boosting the seed investment ecosystem in Argentina. Cygnus Fund I, Inspirit Angels, and Patagonia Ventures are the most relevant cases of this type of investors.

All investors mentioned are very active players but do not have the capacity to invest in tickets larger than a Series A onwards. Therefore, the challenge for the future is to create the conditions for more Venture Capital local players to start appearing, in addition to strengthening the seed investment.

To achieve this, the creation of local LPs (Limited Partners, investors in funds) should be encouraged, and high-net-worth individuals and wealthy families need to start getting involved in the industry and investing in the asset class, while it is also important to count on institutional investors, which virtually do not exist today.

In that regard, the Argentine government has already taken the first step by passing the "Entrepreneurship and Entrepreneurial Capital Law," and granting incentives, subsidies, and tax exemptions to investors, among other things. But that is only the first step. It is necessary to work in other areas such as a Capital market reform, institutional investors (e.g. Insurers, Corporations, Family Offices, etc.), and the rules that generally provide stability and legal certainty to investors.

The next few years are essential to work in these aspects, and it is not only the government's task to develop these pillars, but also the private sector's, and is why ARCAP is working since its re-launch in 2016 so that this industry can finally take off in Argentina.

Angel Investors
Prof. Silvia Torres Carbonell
IAE Business School Entrepreneurship Center Director
IAE Business Angels Club President

Considering the emerging but dynamic phenomenon of venture capital investment and, specifically angel investment, in our country, it is interesting to go back in history. This phenomenon started back in Babylon times; it is also later found in the medieval era in Europe, clearly exemplified by the decision of Queen Elizabeth of Spain to finance the journey of Christopher Columbus, with all the uncertainty involved in the decision, but, as well, considering the great potential revenue it could imply for Spain; and reaches its climax in Florence where the Medici of Florence are regarded as pioneering angel investors.

Promoting the expansion of angel investors is critical as they are a very important link in the life cycle of startups, as the entrepreneurs meet them after having exhausted their own reserves and those of their family and friends, and the startup is not yet ready to interact with venture capital companies.

In Argentina there have always been angels who individually detected projects and boosted them with capital, networking, and knowledge. But more structured and proactive networks of angel investors have started to appear in a very rudimentary form since 2005, and they have evolved within the last 3 years.

Nevertheless, a substantial change is still required to expand this phenomenon so that it really has an impact and becomes able to meet the growing demand for an entrepreneurial and innovative ecosystem that is in full swing. It is necessary to restore the citizens' investment culture.

To achieve this, the challenge is to reverse this trend in our society that relies on the State as the great "protector and social benefactor" and shuns from the value of private initiative, effort, and from the honest, competitive, and efficient businessman as a major prosperity driver. And it is also necessary to have clear rules that invite to invest, taking the natural risks of the business, without adding up the risks posed by an economic and institutional instability.

I believe that today the country is going through a historical moment, and that there is a unique opportunity to consolidate the activity of the investment, entrepreneurial and business sectors and make it innovative, competitive, ethical, socially responsible, and thriving. Government policies implemented are removing obstacles, generating incentives, giving access to certain information, and putting the country on its feet. The recent Entrepreneurship Law and all such programs implemented at local, provincial and national levels to stimulate entrepreneurship and investment are clear examples of this.

There is a long way to go, but we are on the right track.

For further information regarding argentine PE and VC investment firms please visit: www.arcap.com and download the Private Investment Firms Directory, 2017.

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ARCAP

Asociación Argentina de Capital Privado, Emprendedor y Semilla

More About ARCAP

The Argentine Association of Private Equity, Venture and Seed Capital (ARCAP) is a non-profit organization aimed at promoting the development of the Private Investment Industry in Argentina. It seeks to stimulate local investment in companies with high economic, social and environmental impact that can generate high-quality employment in the country.

Since its foundation in 2009 and its re launching in 2016, ARCAP's main goals have remained the same:

- Make contributions to the growth of Argentina's economic activity through the development of the Private Investment Industry and the country's insertion in international markets.

- Promote investments across different sectors in Argentina to help develop and grow the country's economy by creating and producing world-class goods and services.

- Create and distribute information tools about the news and activities of the Argentine industry , and promote the generation of statistics and research on these investments' the contribution to the economy.

- Encourage the implementation of best practices with ethical and professional standards that facilitate the participation of foreign institutional investors in Argentina.

- Represent the industry and its stakeholders at local and international level in business communities, among governmental authorities, the academic world, and the media.

ARCAP offers membership options for different industry stakeholders such as Investment firms, Family Offices, DFI's, Service Providers, Corporate Investors, Accelerators, and Angel Clubs and provides the following benefits:

- Qualified networking
- Local, regional and global representation
- Outstanding participation in ARCAP's digital channels
- Inclusion in press and PR campaigns
- Participation in the industry directory
- Access to industry research studies such as publications and specialized documents
- Access to discounts for ARCAP and ARCAP's partners
- Access to events and education programs
- Participation in frequent meetings with top industry stakeholders.

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About OLFE, Universidad Austral

The Latin American Observatory of Entrepreneurial Financing (OLFE)

OLFE is a joint initiative of the IAE Business School and the Faculty of Business Sciences at Universidad Austral. Its objective is to develop key performance indicators to monitor entrepreneurial activity, particularly concerning financing sources, in Argentina and Latin America.

The mission of the initiative is to generate information tools and research studies on entrepreneurial financing to increase the understanding of the phenomenon and its participants, covering all modalities, instruments, and platforms available in the market, to generate greater transparency and benefits for both entrepreneurs and funders.

Objectives:

• Monitor the Latin American startups financing ecosystem.
• Work jointly with other academic institutions, regional observatories, and other key stakeholders within the entrepreneurial and financing ecosystem.
• Prepare and disseminate research studies on entrepreneurial financing.
• Evaluate the impact of public policies aimed at promoting the entrepreneurial financing market.
• Organize activities such as conferences, seminars, and round tables to promote the topic, with the participation of relevant academics and professionals.

www.iae.edu.ar/olfe

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ANNEX A

Investment Sectors – Private Equity

Private Equity investments in Argentina (1988-2016) Primary Sector Composition

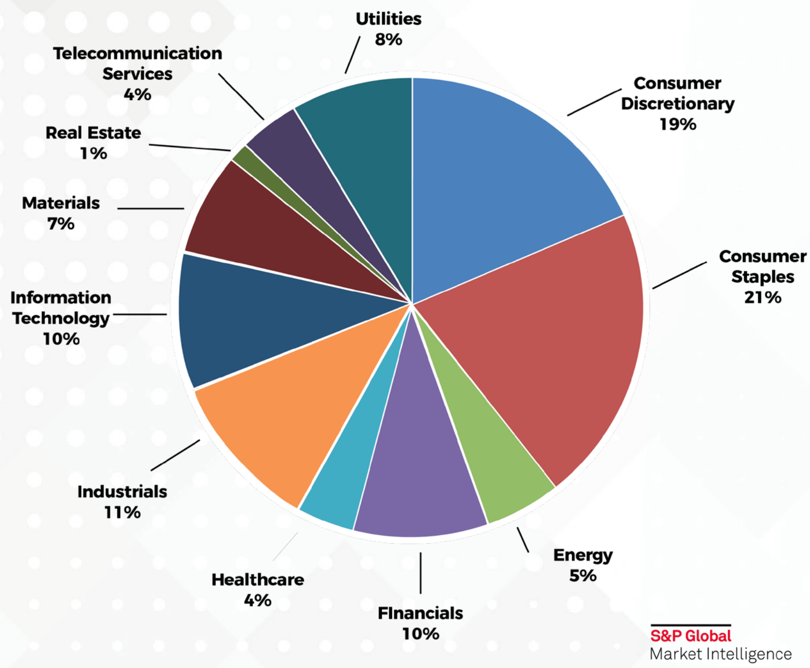

Figure XXI

Detailed Investment Allocation per Industry

Private Equity Investments in Argentina (1992-2016) Primary Industry Composition

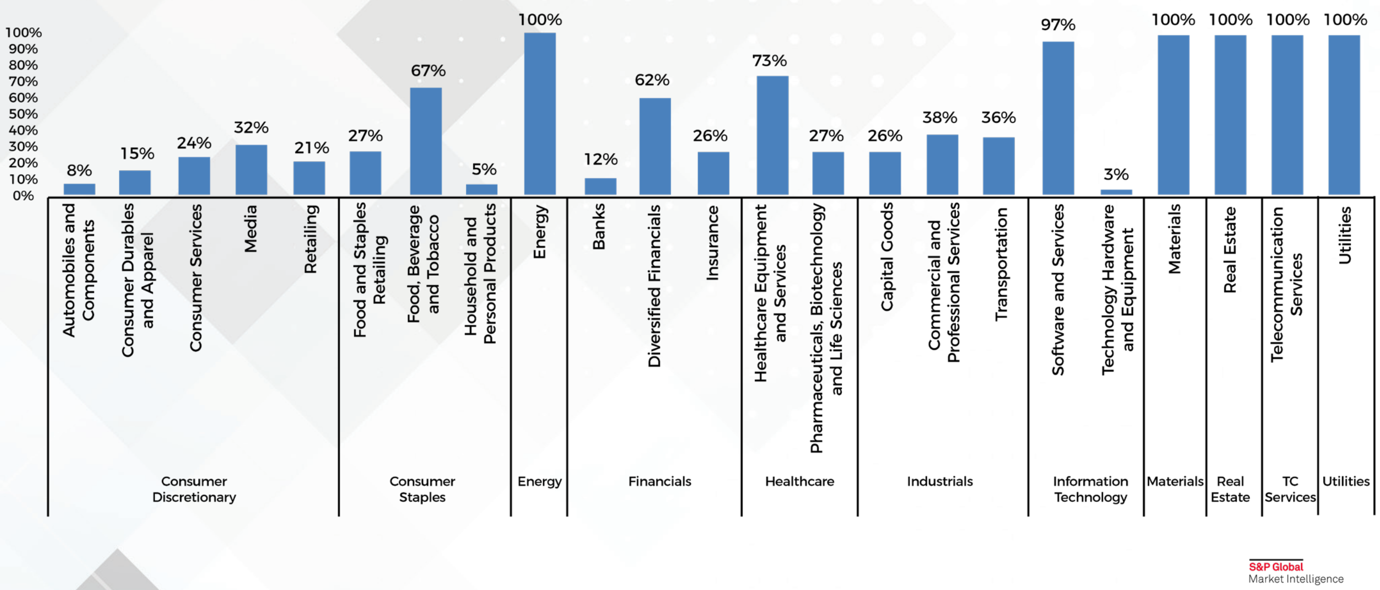

Figure XXII

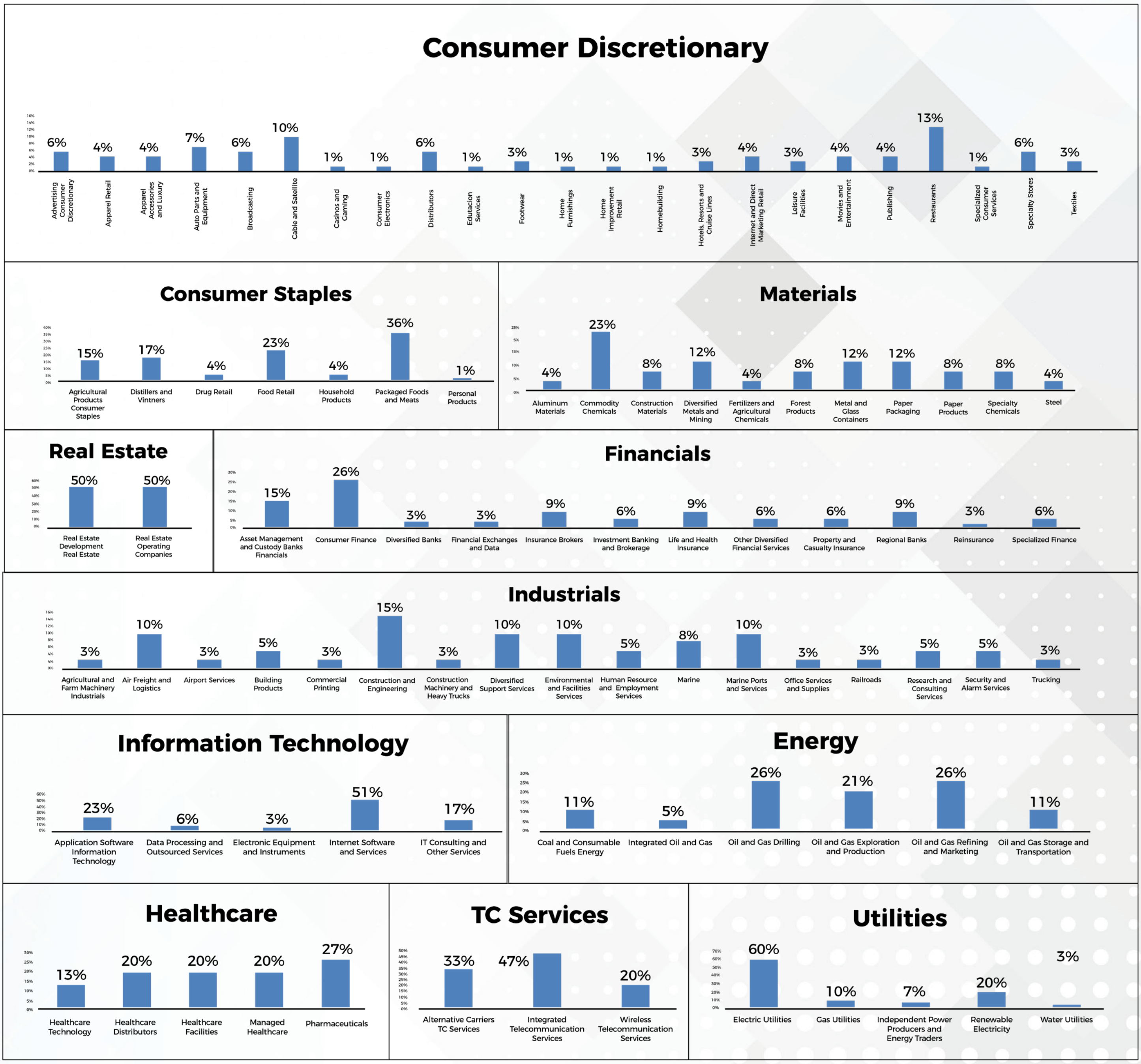

Figure XXIII

ANNEX B

Investment Sectors – Venture Capital

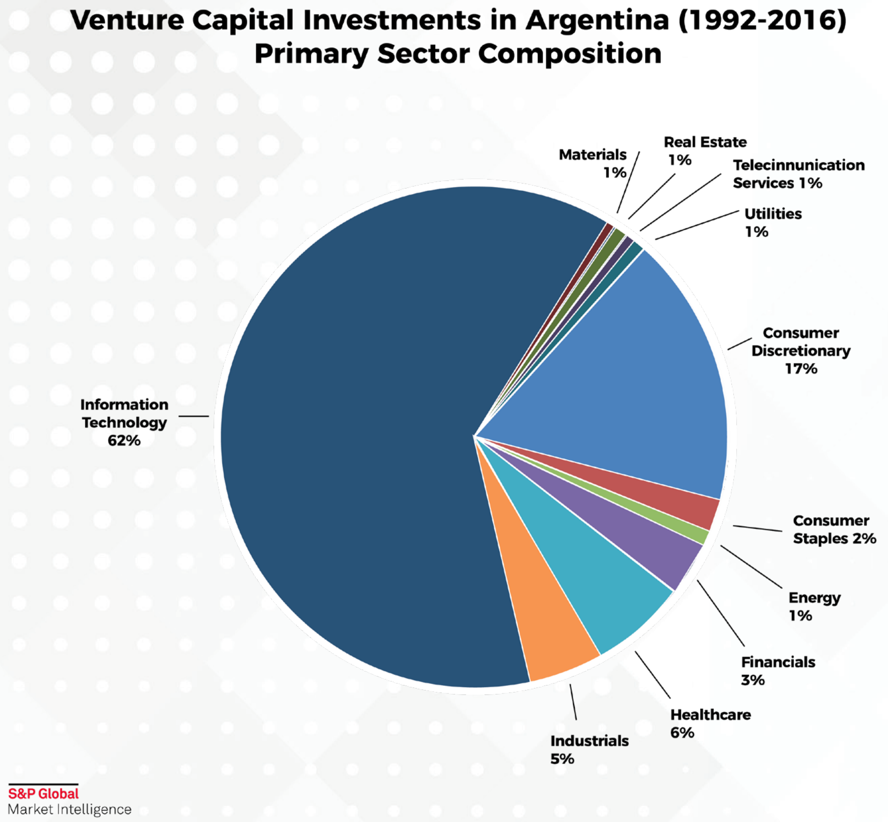

Figure XXIV

Detailed Allocation per Industry

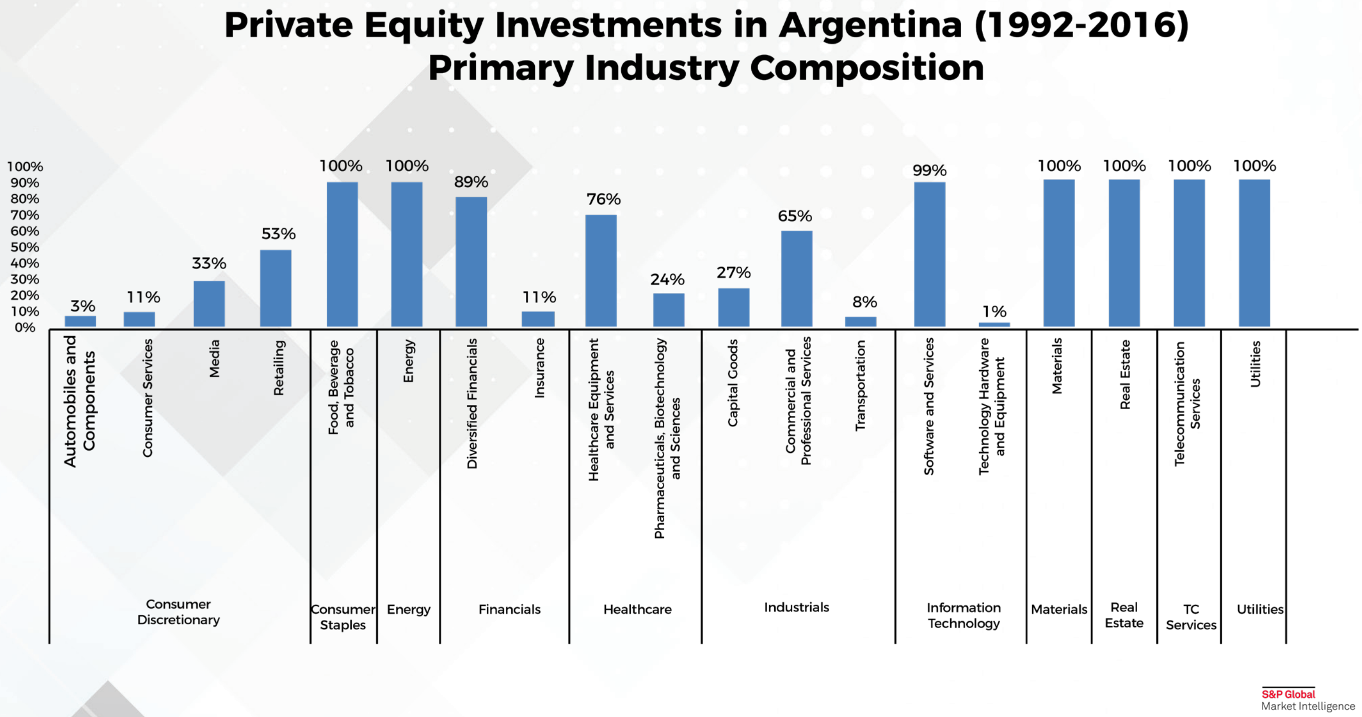

Figure XXV

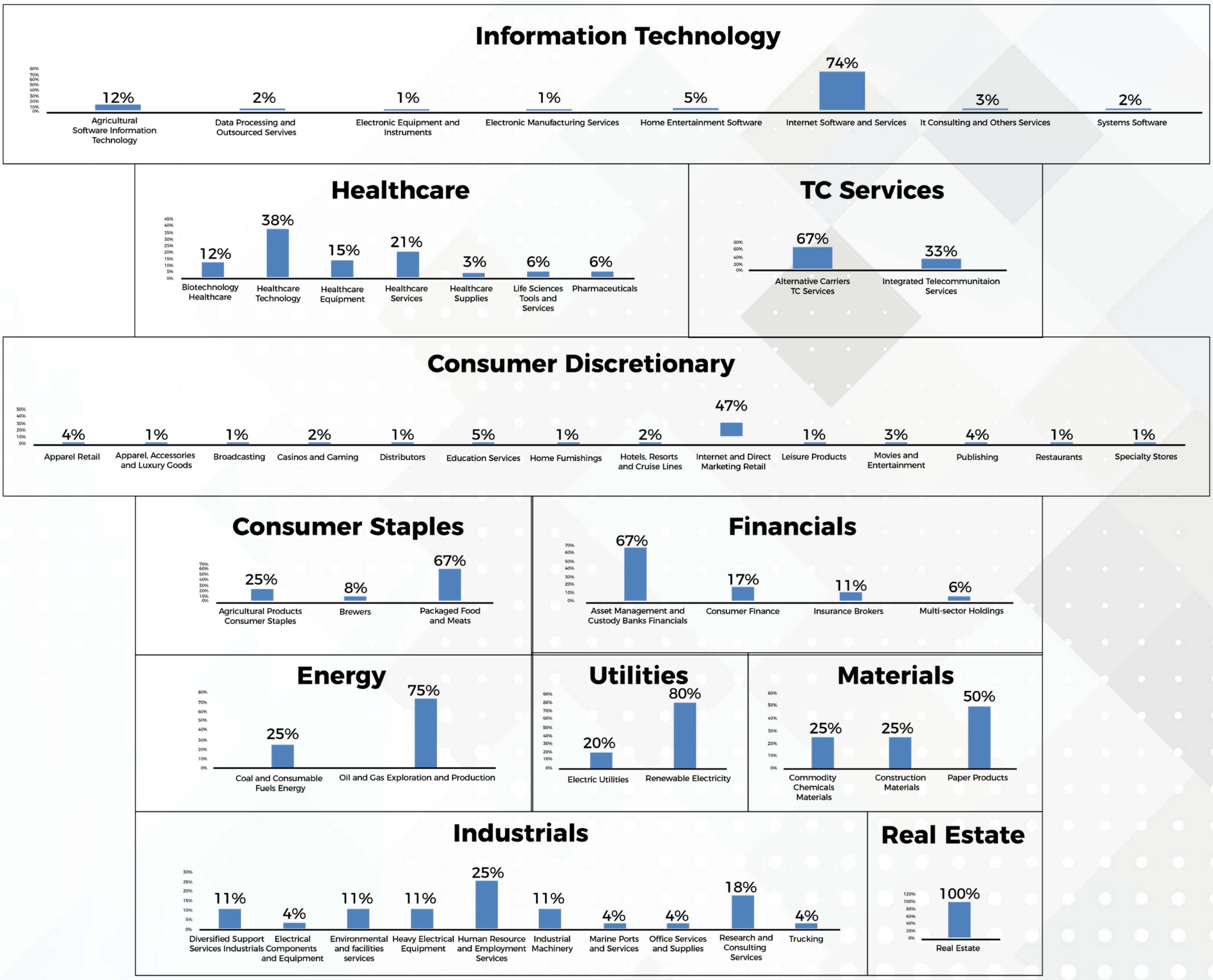
Information Technology
12%
Agricultural Software Information Technology
2%
Data Processing and Outsourced Servives
1%
Electronic Equipment and Instruments
1%
Electronic Manufacturing Services
5%
Home Entertainment Software
74%
Internet Software and Services
3%
It Consulting and Others Services
2%
Systems Software
Healthcare
12%
Biotechnology Healthcare
38%
Healthcare Technology
15%
Healthcare Equipment
21%
Healthcare Services
3%
Healthcare Supplies
6%
Life Sciences Tools and Services
6%
Pharmaceuticals
TC Services
67%
Alternative Carriers TC Services
33%
Integrated Telecommunitaion Services
Consumer Discretionary
4%
Apparel Retail
1%
Apparel, Accessories and Luxury Goods
1%
Broadcasting
2%
Casinos and Gaming
1%
Distributors
5%
Education Services
1%
Home Furnishings
2%
Hotels, Resorts and Cruise Lines
47%
Internet and Direct Marketing Retail
1%
Leisure Products
3%
Movies and Entertainment
4%
Publishing
1%
Restaurants
1%
Specialty Stores
Consumer Staples
25%
Agricultural Products Consumer Staples
8%
Brewers
67%
Packaged Food and Meats
Financials
67%
Asset Management and Custody Banks Financials
17%
Consumer Finance
11%
Insurance Brokers
6%
Multi-sector Holdings
Energy
25%
Coal and Consumable Fuels Energy
75%
Oil and Gas Exploration and Production
Utilities
20%
Electric Utilities
80%
Renewable Electricity
Materials
25%
Commodity Chemicals Materials
25%
Construction Materials
50%
Paper Products
Industrials
11%
Diversified Support Services Industrials
4%
Electrical Components and Equipment
11%
Environmental and facilities services
11%
Heavy Electrical Equipment
25%
Human Resource and Employment Services
11%
Industrial Machinery
4%
Marine Ports and Services
4%
Office Services and Supplies
18%
Research and Consulting Services
4%
Trucking
Real Estate
100%
Real Estate

Figure XXVI

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