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Interview with General Atlantic's Latam Director

By Dan Weil

General Atlantic, a growth equity firm based in Greenwich, CT, has made a major commitment to Latin America, investing over \$700 million in the Latin American private equity market since opening a São Paulo office in 2000.

General Atlantic, founded in 1980, manages about \$15 billion and invests about \$1 billion-\$2 billion in growth companies around the world each year.

It hopes to make more commitments in Latin America soon, says Fernando Marques Oliveira, who in December was named the firm's managing director in charge of the São Paulo office and Latin American activity.

"We have a strong presence in Latin America and want to increase further because of the high-growth opportunities, especially in Brazil," he said in a recent interview with VELA. Oliveira was formerly a director of Grupo Icatu, a Brazilian family investment office.

General Atlantic made three major private equity investments in Latin America during 2007-08:

- In 2007, it put \$71 million into MercadoLibre, an Argentine-based company that runs an internet auction site across Latin America and is partly-owned by eBay.
- In 2007, General Atlantic invested nearly \$550 million in Brazil's futures exchange, BM&F, which merged in 2008 with Bovespa, which owns Brazil's stock exchange, the fourth largest in the Americas.
- In November, General Atlantic allocated an undisclosed amount of capital to Grupo Qualicorp, a Brazilian provider of health insurance brokerage and benefit administration services.

"In all of these investments, there are several factors driving our interest," Oliveira says. "First is the growth of consumption in general in Latin America, particularly Brazil. In the case of MercadoLibre, growth rates of digital

media are very high, just a little behind the U.S., especially compared to traditional media." MercadoLibre has made itself a leader in that space.

BM&F Bovespa has carved out a role of global significance, as the world's 3rd-largest publicly-traded exchange by market capitalization. "It also has top technological services and offerings. Our investment thesis has been that the migration from floor trading to electronic trading provides growth opportunities," Oliveira says.

And financial exchanges represent an area of expertise for General Atlantic. It also invested in Archipelago Holdings, which later merged with the New York Stock Exchange.

As for Qualicorp, Brazil's strict healthcare regulations make it difficult for self-employed people to obtain insurance. Qualicorp provides plans for lawyers, engineers, doctors and others who are members of associations. "It's a huge market with over 1 million members," Oliveira says.

Around the world, General Atlantic focuses on five industries, matching its personnel who focus on each industry with its personnel in local geographies across the globe. The five sectors are :

- Healthcare
- Financial services
- Media and consumer
- Business services and technology
- Energy and natural resources.

In healthcare, "we prefer not to be the ones underwriting the risk," Oliveira says. But companies that can benefit from the growth of healthcare like Qualicorp are attractive."

One area the firm is looking at is diagnosis labs, which it already is involved with in Germany. General Atlantic also finds generic drugs appealing. "That has become a huge market in Brazil during the last 10 years, with Brazilian companies dominant," Oliveira says.

As for financial services, “micro credit makes sense, especially for emerging markets,” he says. “You’re capitalizing on investing in small businesses to help the economy. That’s a new play happening a lot in Brazil and to some extent in Mexico as well.”

Another possibility: companies working with information sources related to financial services. “In Brazil, credit accounts for only 50 percent of GDP, compared to more than 100 percent in the U.S. and Europe,” Oliveira explains.

In the Latin American media sector, the digital side will continue to expand, Oliveira points out. “The challenge for the investor is that there aren’t many sizable companies,” he says.

“It’s hard for us to justify a \$10 million-\$15 million investment. Our investments range from \$50 million to \$500 million, with an average of about \$100 million.” On the consumer side, the growth of Brazil’s middle class gives General Atlantic a vibrant investment theme. With Brazil’s improved economic performance over the past 10 years has come a redistribution of wealth. “The middle class is buying products it didn’t have access to before,” Oliveira says. “This theme is in an early stage of development and happening in other Latin American countries too, like Colombia.”

In the business services and technology space, “We have been spending some time in logistics companies related to energy and natural resources,” Oliveira says. “Brazil has huge problems related to logistics.” While the country is experiencing strong growth in output of agricultural products such as soy, cotton, coffee and sugar cane ethanol, “there are logistical issues to be addressed,” Oliveira says.

The energy and natural resource sector is quite buoyant in Brazil. “The challenge is how to play that apart from logistics without a strong demand for capital,” Oliveira says. “Because of the seasonality of crops, there is demand for working capital and capital expenditures to achieve scale. You need to invest in real estate, for example.”

But General Atlantic isn’t interested in owning capital intensive businesses. “This is where we are struggling the most, but there are opportunities,” Oliveira says. The firm also is spending a lot of time looking at possible education investments. “The Brazilian government hasn’t been able to provide post-secondary education to the growing number of students who want it,” he points out.

“People in Brazil are starting to notice that with higher education come higher salaries. So this sector is growing rapidly. Distance learning courses are a new offering with growth in the 100 percent per annum range, though from a small base. There’s huge potential.”

In addition to Brazil, General Atlantic may seek investments in Mexico, Colombia and Chile, Oliveira says. Colombia benefits from a rising middle class and newfound economic stability. Chile, of course, has a history of economic stability, but government-mandated investments in private equity by domestic pension funds have driven valuations higher.

“For the time being, we expect to spend more than 95 percent of our time in Brazil,” Oliveira says.

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