

An Interview with a Mexican GP



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Q1: *Please provide some background on DILA Capital. When was it founded? How many funds do you operate and what is the geographic focus? What are your AUM?*

DILA Capital is a Venture Capital firm that invests in early-stage companies. Since its foundation in 2005, DILA has launched two funds, through which it has consulted, mentored, and helped to accelerate more than 40 Mexican start-ups. DILA I (2012) and DILA II (2014) are currently on track to deliver 21% and 33% IRR on the capital invested.

We are currently raising commitments of up to MX\$1,000,000,000 for our third Venture Capital Fund, DILA III. We have held a first close of more than MX\$400,000,000 and have begun operations.

Q2: *In what ways is the venture capital opportunity in México different from other asset classes?*

The Venture Capital industry in Mexico is very similar to its demographics: young, vibrant, non-corrupt and with a tremendous drive to make real changes in our country. Mexico is positioned as an attractive market to grow successfully, but it needs investment in innovative, young, disruptive businesses and that is where Venture capital comes into play.

Most of the net new job growth in the USA or Europe in the past few decades have come from high growth start-ups, but it has not yet been seen in Mexico or Latin America. It is going to take a huge collective effort from DILA and the rest of our collaborators to make this happen and we must do it together, as an industry, as an ecosystem and as a team.

Q3: *Mexico has recently experimented a boom in the venture capital industry. In your own opinion, what factors have made this boom possible and do you believe these behavior will continue in the future?*

DILA Capital was created because we identified a need in the market. In 2004, I tried to raise capital for WAU Spot, my first entrepreneurial venture, but was unable to find a single venture capital firm in all of Mexico. My partners and I decided to sell their company due to the lack of institutional capital that would allow us to scale the company. As a result of the experience, we decided to create DILA Capital; a small firm dedicated to fund Mexican entrepreneurs.

The Venture Capital industry evolved from zero funds in 2004 to more than 40 in 2016. The committed capital currently available is almost four times the amount of the year 2010. During 2014, the Federal Government through the National Institute for Entrepreneurship ("INADEM") deployed resources targeted for over 30 different VC funds with very attractive terms for Limited Partners and fund managers. This was a huge factor in the industry's boom.

Q4: *How do you view working with foreign LPs as compared to local LPs?*

Up to date, we have only worked with local Mexican LPs. With this new fund, we are just now looking for foreign investors.

Q5: *In terms of investments, what would be a typical ticket size that you'd make to an investment in México? How do you go about finding and selecting the best investments?*

DILA intends to invest in opportunities that seek capital rounds between MX\$5,000,000 and MX\$20,000,000 per initial investment for a minority stake of between 5% and 35%.

Such investments will generally be allocated, but not limited, to Mexico-based early stage companies that DILA believes have a top tier management team. DILA looks for targets with high-growth markets, scalability, exponential technology or a disruptive business model, a fair valuation and a clear strategic vision of providing a profitable exit opportunity within 3 to 6 years from the date of initial investment.

One of our main assets in DILA is the access to a pipeline of diversified opportunities which is generated through its own network, which includes incubators, accelerators, research centers, universities, high-net-worth individuals and other venture capital or private equity funds. These relationships have been built over the course of 15 years participating in the entrepreneurial ecosystem, where DILA has built a solid reputation. As an example of its position in the market, from 2015 to 2016 alone, DILA analyzed over 900 different investment opportunities.

Q6: *In terms of exits, please describe recent transactions and buyers, as well as in general the exit landscape in Mexico. Is there any success case you want to comment about?*

We know that the “exits” is obviously the biggest unknown of our investment thesis and our business model. In part because, historically, Mexico has not been a country with too much movement in acquisitions and in another part because the funds are still very young, just as the entire venture industry in Mexico, and have not completed full life cycles. However, we are seeing a lot of interest and movement in our portfolios. In 2016, we sold 2 companies of DILA I and we received 4 approaches (some with term sheets) to buy companies of DILA II. And while we have not yet closed any major “home-runs”, we have never seen so much interest from strategic players, private equity firms and foreign capital to buy Mexican Startups. We have also seen large rounds of capital in startups from foreign funds enter in the Mexican market.

In addition to this, DILA strategically analyzes potential exit opportunities from the first interaction with entrepreneurs. In order to have a broad visibility around exit opportunities for portfolio companies, we work closely with strategic partners, such as private equity funds, investment bankers and companies seeking to expand their business lines through mergers and acquisitions. Once a month, our entire team has a “Path to Liquidity” meeting, in which we try to understand market trends as well as the appetite for the companies in the market. With this, we intend to help our companies be prepared and best suited for a potential transaction down the road.

Q7: *What is your advice to LPs interested in approaching DILA Capital or a Mexican GP in general?*

Invest in Mexico! The country holds strong macroeconomic variables and has been stable for the past 15 years with one of the most advanced trade policies in the world. Mexico’s demographics, with a young middle class population, a segment which has been growing for more than a decade, make Mexico an attractive investment destination.

The Venture Capital industry needs more LPs, so anyone interested in the entrepreneurial ecosystem should become an LP. Please contact us!

Particularly in DILA, we like to think of our LPs as part of our team. Our LP’s network, experience and advice is always welcome. We prepare a monthly document with all our portfolio companies’ commercial needs, pain points and areas of opportunity. This document allows LPs, investors, advisors and partners to provide portfolio companies with highly-valuable resources they may not have access to otherwise (contacts, strategic partners, advising, etc.). This exercise has played a key role in the value-added process and has produced effective and direct results for the portfolio companies.

DILA’s 15-year experience in the entrepreneurial ecosystem has led them to believe that mentorship is one of the key drivers of success. With this said, DILA seeks to promote and develop each of its entrepreneurs through their network, experiences and recommendations. DILA Capital understands that the methodology’s nature will be developing itself into a human relationship between mentor

and entrepreneur based on trust and respect. DILA's Senior Management, the Fund's LPs and industry experts are all brought in by the Fund in order to coach, aid, and mentor the entrepreneurs.

Q8: What is your take on the current state of the venture capital industry in Mexico? What changes do you feel are most important for the region in order to make the Mexican industry attractive for international LPs?

The current state of VC in Mexico is as exciting as can be. . .

In DILA we have mapped over 200 companies who have received seed and venture investments in Mexico in the last 3 years. These 200 companies are all looking for later Seed and Round A investments, but there is not that much capital in these stages! This puts the venture capital industry in an extremely interesting and exciting state.

This is especially true for us in DILA, where we have a new fund ready to invest in these stages where we are seeing a huge gap in the market. With DILA III we hope to achieve a well-diversified investment portfolio that includes companies exactly in later stage seed capital and Series A rounds.

The current situation in the private equity landscape in Mexico also presents a very unique and attractive opportunity. Per Industry reports, many late stage funds have unused capital mostly driven by scarce opportunities that fit their investment profile. This "dry powder" is yearning for deals that DILA can bring to the table.