

PROJECT SUMMARY

IDEAS & CAPITAL - MEXICO INNOVATION FUND (ME-M1105)

Project Summary The MIF investment in Ideas & Capital's Mexico Innovation Fund (the Fund) follows MIF's Early Stage Equity Strategy of filling gaps in early-stage financing to support innovative companies that demonstrate high revenue potential and scalability in Mexico and the LAC region. Mexico is a nascent venture capital market that is beginning to show strong growth. The entrepreneurial ecosystem of the country is developing with the support of the government, the private sector, and educational and research institutions, allowing for the creation of high potential, high impact companies. Funding for these companies, however, continues to be scarce, and generally from sources represented by Governmental funds, angels, and a limited number of Venture Capital funds (some of them supported by the MIF) operating in the market. Ideas & Capital (I&C), led by founding partners Ricardo Elizondo and Xavier Ponce de León, seeks commitments for US\$ 40M¹ to invest in 15 early stage companies through venture capital rounds. To support this fund, the project team is requesting an equity investment of US\$ 4,000,000 and a non-reimbursable technical assistance of US\$ 260,000.

The strategic focus will be innovative start-ups and SMEs in sectors that generate impact (agribusiness, education, healthcare, and technology)² with a vision to scale regionally and internationally. Portfolio companies must also possess a superior management team, generate formal employment, as well as promote the social and economic development of local communities. The fund will make initial investments of US\$ 250K - US\$ 2M in early stage investment rounds (Seed and Series A/B), with follow-on investments if the company performance warrants it for its growth and scalability throughout Mexico and to other countries. Emphasis will be given to scaling innovative companies by implementing rigorous processes and building strong corporate governance. The Fund will seek to take a role of active investor and strategic partner. In this sense, as part of the requirements of any investment, it will seek a seat on the board of directors to monitor and supervise the performance of the company and to take part in any relevant decision taken in the company.

With respect to the intended investment strategy of the Fund in the different impact sectors:

- i. I&C seeks to invest in innovation in agribusiness and to scale companies like those of Blue Drop, a company builder³ which creates high-growth ventures that apply the latest technological developments in the agricultural and forestry sectors, and are also strongly market-driven and environmentally sustainable. I&C's first fund invested in Blue Drop's Prolade (a sustainable palm oil producer) and is considering Blue Drop's Tropical Organic Growers (production of organic bananas, papaya, mango, and pineapple to scale the organics value chain) as part of the pipeline for the Fund. The company plans to boost formal employment in rural areas for populations that do not typically comprise the labor force of VC-backed enterprises.

¹ For the purposes of this abstract an exchange rate of MXN/USD 15.00 is used. The Fund is denominated in MXN and seeks a maximum capitalization of MXN 600,000,000.

² The [Global Impact Investing Network \(GIIN\)](#) has identified 22 sectors that generate impact which are measured by 488 [Impact Reporting and Investment Standards \(IRIS\)](#). Impact can be demonstrated in the Fund's target sectors through growth in formal employment, productivity gains, implementation of certified sustainable agricultural methods; increased student enrollment, attendance, and achievement on proficiency exams; improved health interventions, efficient utilization of medical facilities, and implementation of quality assurance mechanisms; and IRIS metrics relevant to the industry that the technology specifically addresses, such as the environment, energy, or financial services.

³ Company builders are companies that own equity in various corporate entities they help created. The MIF has already invested in a company builder through another fund, CapVentures (AR-M1017), and it is proving to be a successful concept to create startups. A company builder is typically led by a successful serial entrepreneur who creates companies by preparing a business plan and recruiting a professional team to lead the start-up, while incubator help entrepreneurs to develop and grow their own ideas or companies by providing infrastructure as well as mentoring. Accelerators are structured programs (with a start and an end) targeted to pre-seed and seed startups with the goal to help achieve some predefined goals (graduation from the program, funding, etc.).

- ii. I&C seeks to invest in innovation in health and nutrition. It has scaled companies like Fruitex which improves nutrition for students. Fruitex developed a process to transform fresh fruit into fruit bars while conserving 100% of nutrients. These bars have no sugar or other additives and have been incorporated into student breakfasts throughout various Mexican states in order to help meet the nutrition regulations established by the authorities. The founder and CEO credits I&C as an investment partner that has helped it not only to scale its sales to the Mexican government, but also to develop the vision and the connections to prepare a commercially viable product for sale in the private Mexican and North American markets. The product already meets a need of low-income students and its commercial expansion will target BoP and regional markets.
- iii. I&C seeks to invest in innovation in technology, including companies that address the need for “smart cities”. I&C’s first fund invested in Econduce, a fleet of electric scooters supported by its own proprietary software which serves an unattended segment of the sharing economy⁴ for transit. It is an alternative for users seeking more comfortable transit than the shared bicycle service as well as faster transit than possible with shared cars which face gridlock traffic with delays of an hour or more. The co-founder specifically highlighted that his company’s decision to seek the investment and partnership with I&C was due to the vision and capacity for execution that I&C had to scale the company’s growth strategy. Econduce is a transport solution that also generates positive impact for the environment: designed to be all-electric, Econduce is far more energy efficient than a car and does not produce emissions that contribute to smog, a recurrent problem in some cities of Mexico.

The MIF’s prior experience in early stage equity funds will help the Management Company, I&C, structure the Fund according to international best practices and adopt the best practices in corporate governance and environmental and social standards, at both the Fund and investee levels. The MIF will provide an equity investment to an asset class that is still of limited supply in the Mexican market. It will improve the credibility of the Fund, a barrier to fundraising faced by Fund Management Companies with limited track record, by helping to bring other investors during its first and subsequent closings.⁵

I&C’s Mexico Innovation Fund’s focus on agriculture, education, and technology companies complements similar focuses of other funds in the MIF’s Mexico and Regional portfolio, enabling the MIF to compare investment models and results from these sectors in different geographies.⁶ In their first pilot fund, I&C invested in two companies in each of these sectors, building on the experience that co-founder Ricardo Elizondo had in taking agroforestry company Proteak to an IPO on the Mexican Bolsa de Valores.

Expected outcomes from the project include the direct and indirect generation of employment with emphasis on formal and high-skilled jobs,⁷ revenue increase of portfolio companies, strengthening of a local fund asset manager, and mobilizing of additional investments in to the fund.

⁴ The sharing economy, also known as collaborative consumption, is a trending business concept that highlights the ability (and perhaps the preference) for individuals to rent or borrow goods rather than buy and own them. The Millennials (population born between 1985 and early 2000s) have shown a strong preference for this trend.

⁵ The minimum capitalization for first closing is US\$ 12M, and subsequent closings will target a total capitalization of US\$ 40M.

⁶ The Fund’s intended investments in agribusiness companies developed via a company builder like Blue Drop could be compared to the results of Sembrador’s model for investments in the Agrodesarrollo (CH-M1038) and VICTUS (RG-M1227) funds or Aqua’s model for the AGF LatAm Fund (RG-M1197) in the Southern Cone region. Given the breadth and depth of the MIF’s current active portfolio of over 50 funds, there are numerous potential comparisons that could be made at the company level, fund level, country level, and sub-region level that will be determined based upon the companies ultimately receiving investment by the Fund.

⁷ High-skilled jobs reflect the ILO’s ISCO Skill Levels 3 & 4 which typically require complex problem-solving, decision-making, and creativity based on an extensive body of factual, technical, and procedural knowledge in a specialized field.